★ ROLLING MARKET ADJUSTMENTS ★ ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

APRIL 14, 1956 85 CENTS

A REALISTIC STUDY OF THE CHEMICALS
By RICHARD COLSTON

★

TIMELY SURVEY OF STRATEGIC OIL INDUSTRY
By H. F. TRAVIS

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★ NEW VISTAS OF OPPORTUNITY

OPENED BY TRANSCONTINENTAL SPREAD OF INDUSTRY
By HAROLD WIELAND in collaboration with ETHAN ALLEN PEYSER

★ REAL VALUES BEHIND 75 LEADING STOCKS
By WARD GATES

★ INDUSTRIALISATION OF COMMUNIST CHINA
By V. L. HOROTH

Allan Green

For all of us, something to cheer about

ASSISTANT cheer leader Allan Green is a sophomore in the College of Letters, Arts, and Sciences of the University of Southern California.

He's also, through foresight, one of the youngest of the 46,175 people who hold shares in Union Oil, the 40th largest industrial company in the country. And his 55 shares entitle him to a report on our 65th year of business.

In 1955 our customers paid us the record amount of $368,760,900.

$59,286,200 of this amount, or 16.1%, was paid our 8,839 employees as wages and for benefits to protect them and their families.

Taxes took 3.6%. This does not include the $65,875,000 we also collected from customers as fuel taxes for governmental agencies.

We spent 72% with more than fifteen thousand other companies and individuals with whom we do business.

This left 8.3% of the $368,760,900 as net profit. Slightly more than half of these earnings were paid in cash dividends to Allan Green and our other 46,174 share owners, who also received one additional share of stock for each ten held.

The balance of net earnings, equal to 3.9% of the customers' dollars, we reinvested in the business for necessary expansion and modernization of facilities.

Whether or not you own stock in this or any other company, it seems to us that this report is of vital concern to you.

For so long as companies like Union Oil have the incentive to compete and make a profit, Allan Green and others like him will have the incentive to hold shares in that company.

This is the best possible economic climate for continuing prosperity. Which is, for all of us, something to cheer about.

* * * *

YOUR COMMENTS ARE INVITED. *Write: The President, Union Oil Company of California, Union Oil Building, Los Angeles 17, California.*

Union Oil Company OF CALIFORNIA

MANUFACTURERS OF ROYAL TRITON, THE AMAZING PURPLE MOTOR OIL

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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With the EDITORS

We are living in days that call for the greatest awareness of the revolutionary changes in industry that are affecting even our most important companies. Today, barely has one process or product been evolved before it is obsolete and being replaced by something new and different—more practical—more desirable.

Because the Magazine is concerned with actualities, our work has attracted a great deal of attention, so that we are widely read in important places at home—and abroad too, in the chancelleries of foreign nations on both sides of the Iron Curtain. Our work is of the most practical character and of dollars-and-cents value—and is frequently well ahead of the news in projecting trends—calling attention to new developments in processes and products.

* * *

So swift is the current of shift and change that nylon, a comparatively new product, is already feeling growing competition from Japanese silks for the manufacture of many types of clothing, as anyone shopping for wearing apparel is finding out. Dacron seems to be slipping—in fact, various synthetics are giving way to natural fibers.

The bloom is off the rose in the moving picture industry—only recently revived by sale of film libraries for television. Prices in some markets already have dropped to $500 from $2,000 a picture for TV exhibit. And the higher cost of making pictures in their native locale, whether it be Shanghai, Cairo, Rome or Spain, with a number of stars in each picture, is creating new problems.

The development by Packard (Studebaker-Packard) of torsion suspension and the non-slip differential and Chrysler's turbine engine are likely to bring broad changes in cars next year—if these new principles are made available to all manufacturers. The consent decrees, which opened basic patents, has produced quite an upset in the calculator fields, bringing in competition from new producers and auguring changes for old-line companies.

* * *

These are but a few of the numerous recent developments (with many more to come) which we will continue to cover in the Magazine, with clear interpretation of their impact on varied industries and individual companies.

We are pleased to be of such service to subscribers, whose letters are always an inspiration to us.

One subscriber writes—

> I have been subscribing for 25 years. Strange as it may seem my subscription was more to get your viewpoint than to make money out of buying and selling stocks.
>
> I consider you excel in presenting all subjects of interest—be it on world affairs or domestic,and effects on our economy.
>
> I am going abroad on a business trip—study and touring combined—and shall renew my subscription upon my return.
>
> H. A. L., Brooklyn, N. Y.

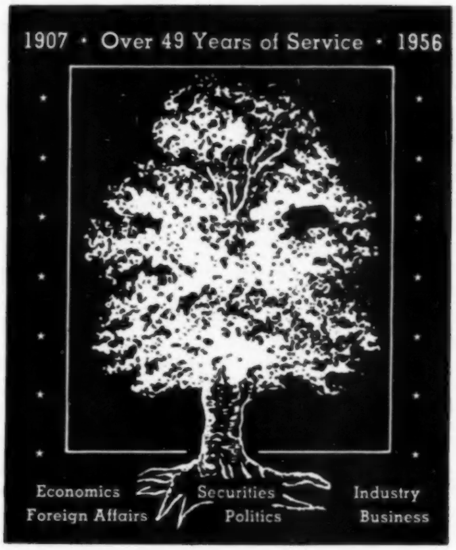
Editor's Note — Many subscribers tell us that our articles are extremely valuable to them in conducting their business—quite aside from their investments . . . and, of course, the informative and educational qualities of our Magazine are put to use in college classes throughout the country.

Below is a critical comment from a writer referring to our story "Aluminum-Growing Importance of a Modern Metal" which appeared in the February 18, 1956, issue:

> We have no argument with the article itself but believe the caption with the photograph beginning the article carried a serious misstatement which we feel sure you will want to correct in the interests of fair play.
>
> You state that "An installation crew of 61 men worked a mere nine and a half hours to enclose the steel skeleton of the 22-story building with aluminum panels. The job normally would have taken from six to eight weeks, it is estimated, had conventional building materials and methods been used." This is not a correct statement—at least not in what it implies.
>
> Actually two different things are being compared. It is true that the building in question was closed in with (*Please turn to page* **140**)

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

ECONOMICS AND THE ELEMENTS . . . A long-trusted guidepost of business direction is provided by the retail trade. Investors, business folk, analysts and economists, all of whom scan the volume of department and specialty stores in all seasons, look to Easter for a major clue to over-all economic trends. Indeed, the Easter shopping season often is more revealing than Christmas buying, since millions of people will go "overboard" for luxury gifts and frills in the spirit of Yuletide, whereas the purchases that mark the advent of spring are, for the most part, predominantly utilitarian—apparel, house-furnishings, appliances and the like.

As for the Easter shopping that has just passed into history, the jury is still out.

The inability to arrive at a clear-cut verdict stems, of course, from the severe weather that gripped the Middle Atlantic States at the very height of the Easter selling season. Steady rain, heavy snowfall and low temperature readings were hardly conducive to the movement of spring bonnets, curtains or laundry dryers. Nobody, but nobody (as the store advertisement states) has to brave the unkind elements to buy these items. They go under nobody's tree. As a typical result, stores in New England sustained a decline in sales of about 29% in the week before Palm Sunday compared with a year earlier.

There was comfort to be had from the other parts of the country, where the weather was kindlier and business brisker. But even there the results were subject to varied interpretations. For one thing, increases reflected, in part, the fact that Easter came a week earlier this year.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

Those who scrutinize store volume will do well, in assaying April results, to bear in mind that while sales for the month perk up, much of the business will carry with it scant profit, for this is the markdown season.

Apparently, we also shall have to wait awhile longer to find out whether the forecast of a shift in consumer demand from home goods, which predominated in 1955, to apparel will materialize this year.

BETTER LATE THAN NEVER . . . In the complaining letter of Lord Beaverbrook, eminent British publisher, to Roy W. Howard, the noted American publisher, we blinked at this passage: "It is difficult for the British people to understand the wave of criticism of British institutions and policies, which is flowing from the United States."

In 1946, lunching with him at his home in Leatherhead, the publisher of THE MAGAZINE OF WALL STREET deplored the vicious attacks in the English press on the United States and even suggested he, the foremost publisher in the United Kingdom, do something about putting a stop to these violent attacks. We mentioned that it was important that Britain and the United States remain fast friends if the world, large areas of which had been devastated, were to be rebuilt on a sound basis. We voiced a feeling that the two countries should work together just as they fought side by side to bring the war to a victorious end.

Lord Beaverbrook changed the subject very quickly with

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS::1907—*"Over Forty-nine Years of Service"*—1956

a smile and made no response to this plea.

Now he comes to us after long years in which the British press has been taking the United States apart, with this curious plea. But Mr. Beaverbrook is not primarily interested in editorial amenities, as the balance of his letter to Mr. Howard makes clear. His main concern is the extraction of British chestnuts from the Middle East fire.

Of course, an unswervingly friendly tone in our press now, amidst the conflict of American and British interests in that part of the world, would suit London's policies admirably. We were not aware of any "wave of criticism" directed at Britain from here, nor have we been able to recall a time when the American press attacked British policies with the nastiness and violence directed by our cousins overseas at our policies and behavior.

We trust our reaction to Mr. Beaverbrook's plea is not harsh, for there is no wish here to discourage a convert, however late the hour.

SALUTE TO TWO GREAT INDUSTRIAL LEADERS . . . In a country that gives altogether too much emphasis to the trivial, it is not to be wondered at that important contributors to our society should be largely overlooked, especially if the nature of their toil is dedicative rather than spectacular. It requires a retirement after a lifetime of service or the observance of a half-century of duty to merit more than passing attention from the public prints. There is little glamour in a forward-looking philosophy, great vision, boundless energy, abiding loyalty and wise counsel.

The retirement of Alfred P. Sloan Jr. as chairman of the board of General Motors and completion by Paul W. Litchfield, chairman of Goodyear, of 50 years of continuous service as a director of that leading rubber company, prompt a wish that greater attention might be granted to their deeds. In the story of the Litchfields and the Sloans can be traced all of the business forces which have made this the premier industrial nation of the world. Nor are we thinking so much in terms of gladdening the hearts of our industrial statesmen as of the lasting good and fine inspiration they offer to a rising generation.

As for ourselves, we are glad to be able to salute Mr. Litchfield and Mr. Sloan. It is good to know that their companies and this country will continue to have the benefit of their services, for the dean of the rubber industry will continue as chairman and director of Goodyear while Mr. Sloan remains a member of the board and honorary chairman of GM.

INEFFECTUAL MR. DULLES . . . Aside from his predecessor, it is difficult to recall a Secretary of State who has fewer friends than Mr. Dulles. While the office is not elective, the recollection of the role Mr. Acheson played in the Democratic defeat of 1952 is still plenty painful to his party.

But, on the basis of overseas sentiment, it would appear that Mr. Dulles comes off even worse than Mr. Acheson. The antipathy toward Mr. Dulles has increased as the Communists have made strides on a wide front. It seems somehow that Mr. Dulles lacks that quality necessary to impress the sophisticated diplomats of Europe and Asia—and any American listening to his speeches on the air can readily understand why.

Today his popularity stands at zero among our allies, the neutrals and the Soviet bloc alike. That tells the true story of Mr. Dulles' ineffectual handling of foreign affairs.

Recent state primaries have been subject to many interpretations, with not a few suggesting that our people, in countless instances, are registering a protest against Mr. Dulles. Former President Truman, ever the shrewd politician, put his finger on it when he chose to fight the Administration on the ground of foreign policy, the weak link in its armor.

GAINS BY SMALL BUSINESS . . . There is no dearth of favorable reports (record sales and earnings) from the industrial kingpins. Equally gratifying is the report by the Small Business Administration that sales and profits of small business have been in an uptrend. The SBA reveals that 1955 brought an extension of the recovery that began in the middle of the preceding year after a decline of several years.

Earnings of these small companies in the 12 months to October 1, 1955, amounted to $1,244,000,000, before taxes, compared with $934 million in the preceding 12 months. Earnings, after taxes, amounted to $627 million, against $442 million in the corresponding 1954 period.

The turn in the fortunes of these companies will be welcome news, indeed, to all segments of the business community. While it would be idle to overlook the pinch, in innumerable instances, stemming from competition with the industrial giants, any one of a number of the big fellows is dependent on thousands of suppliers which qualify as "small business." It has been borne in upon us on a number of occasions that a stoppage or shutdown of a small business can tie the kingpins in knots. This complementary aspect of the economy too often is overlooked (sometimes we think deliberately) by those who depict these two vital segments of the economic community as irreconcilable foes. Our readers are all too familiar with the growth company (small yesterday, big today) not to recognize that fallacy.

THAT OTHERS MIGHT SEE . . . The murderous thug who hurled sulphuric acid into the face of Victor Reisel, long-time crusading writer who opposed gangster elements in our labor unions, must be brought to justice. It is not too much to say, however, that an apathetic community is not entirely blameless.

There are too few Riesels and too many who have been guilty of abject surrender to criminals in control of labor unions. Working folks have lacked the courage to oppose this evil element. Employers have meekly sat at the bargaining table with these gangsters. Whole industries have paid them tribute. Political leaders have solicited campaign contributions from this element and not a few public officials have accepted bounty.

Victor Riesel may have paid the terrible price of blindness for his courageous course. At the very least, we must open ours to the apathy, folly, corruption and cowardice of a community that accepts such a state of affairs.

As I See It!

By CHARLES BENEDICT

DULLES AND HIS "BRINK OF WAR"

With the outbreak in the Middle East, Dulles has pushed us over the brink—and there is no doubt that history will make him responsible for bringing on World War III by his blundering and inept handling of the situation there.

It was clear to every thinking individual that Egyptian arming was a direct threat to peace in the Middle East, and that it was only common sense for the United States to offset Russia's support to Egypt by making planes and other arms available to Israel. It is hard to imagine what Mr. Dulles had in mind, in the light of our tremendous oil interests in the Middle East, which Russia covets, and upon which Free Europe depends for its peace and defense needs.

He is certainly playing a dangerous game—for no one can tell what is likely to happen—as Russia is bound to manipulate the situation to suit her own purpose — and demand a quid pro quo for supplying arms and planes to the Arab bloc that can be very costly to us.

The openly expressed shock over American policy by such staunch suporters of NATO as the Benelux Group, which includes the Netherlands, Belgium and West Germany—should give us pause—for it expresses a loss of confidence and faith in the ethics, sincerity and good judgment of the United States. This is quite a different story from the give and take between the United States, Britain and France when our interests conflict.

Reports show that London and Paris are clearly alarmed by the turn of events and the conflict that has broken out. They believe that Mr. Dulles' statements have had the effect of encouraging Egypt to pursue a militant course that endangers the peace of the entire world.

In our own country the people are now thoroughly aroused and becoming intolerant of the muddling in our foreign policy. They see the danger of the United States again becoming involved in another global war, and realize that this time we will be vulnerable to devastating attack.

Politically, Mr. Dulles is the number one liability to the Administration. Nothing has affected the confidence of the people in President Eisenhower more than the recent vacillating stand whether to ship or not to ship the 18 tanks to Saudi Arabia as well as other contradictions, including the controversy over Nationalist China shipments to the mainland.

'YOU'RE IN QUITE A FIX—AREN'T WE?'

The Greensboro (N. C.) Daily News

This sorry state of affairs is forcefully highlighted by a recent item in the "New York Times", which says: "The State Department believes that the United States' 'particular ability to exert influence' in the area derives in part from the fact that, in contrast to Britain and France, it is not a traditional supplier of arms to the area." It is difficult to reconcile this with the tank shipment to Saudi Arabia.

The stunning defeat administered to the pro-Western regime in Ceylon, an area of the world recently visited by Mr. Dulles, marks the passing of another staunch ally. It is, at the same time, a significant victory for the Communist ranks, for the incoming government has made no secret of its plans to effect closer ties with the enemy bloc. The bewilderment of the Free World grows as the Communists carry forward their program of nibbling us to death.

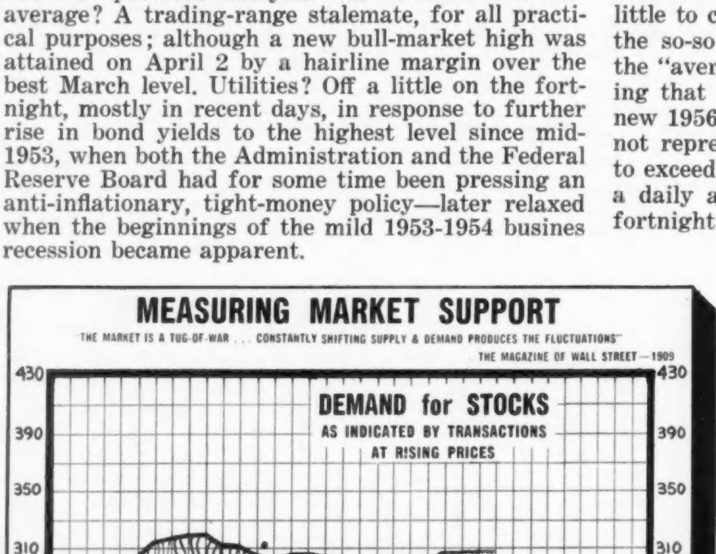
Our enemies have noticed our confusion, and the Communists, as is their wont, have taken full cognizance of the situation by changing the tactics in their campaign against the tyranny of Stalin and reducing it to a mere protest against "rule by personality," a sly and subtle dig at President Eisenhower. As it looks today, the Republican Party may find the affection the people feel for our Chief Executive may not be as much of an asset as they think if the Middle East War spreads and Mr. Dulles remains as Secretary of State.

Rolling Market Adjustments

In line with varying industrial trends and company prospects, marked selectivity and rotating leadership remain principal features of the market. There is no change in our view that, on a price basis, comparatively few stocks remain attractive. You should continue to adhere to a conservative and discriminating investment policy.

By A. T. MILLER

How's the market? If you mean the Dow industrial average, it reached a new peak a shade above 521 at the end of last week; and, in a mixed market, showed a moderate net gain for the fortnight since our last previous analysis was written. The rail average? A trading-range stalemate, for all practical purposes; although a new bull-market high was attained on April 2 by a hairline margin over the best March level. Utilities? Off a little on the fortnight, mostly in recent days, in response to further rise in bond yields to the highest level since mid-1953, when both the Administration and the Federal Reserve Board had for some time been pressing an anti-inflationary, tight-money policy—later relaxed when the beginnings of the mild 1953-1954 busines recession became apparent.



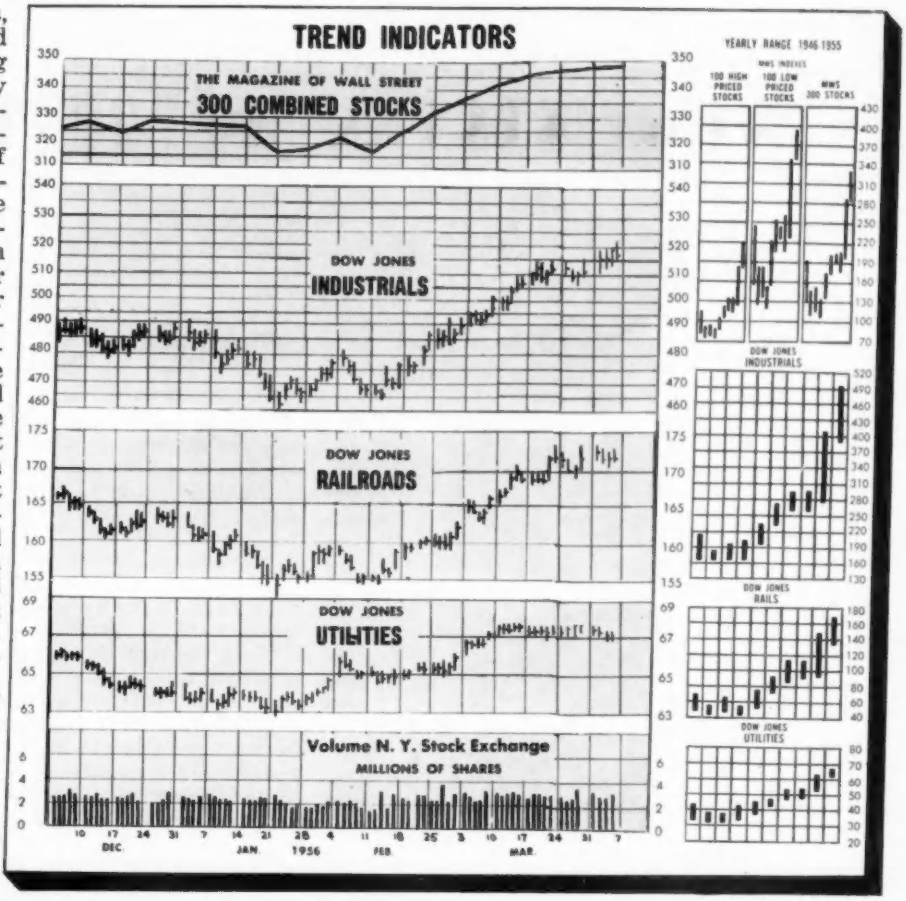
The general run of individual stocks? Answer, as usual, some up; some down; some stymied. Striking a daily average for these two weeks, 454 issued advanced, 505 declined, 245 were unchanged. So viewed, over-all market performance gave profit-seekers little to cheer about; and was somewhat inferior to the so-so results of the preceding fortnight. With the "averages" around peak levels, it is not surprising that the number of individual stocks attaining new 1956 highs—quite a few of which, however, do not represent new 1955-1956 highs—has continued to exceed the number sagging to new 1956 lows. On a daily average basis, new 1956 highs during the fortnight ran to about 102 issues, new lows to about 44—both relatively small percentages of the average of some 1,208 issues traded daily. A sizable portion of the new lows was accounted for by preferred stocks, reacting moderately to bond-market unsettlement in line with present hardening money-market conditions.

Basis For Slow-Down Or Correction

The market's substantial upswing since mid-February, exceeding 11% for both the industrial and rail averages, should suffice by itself to justify either a consolidating phase of sidewise drift for a time, with interest centering principally on the cross-currents within the list, or some degree of corrective reaction. The rise in bond yields is an added consideration which might well cool down bullish enthusiasm. It cannot be ignored by at least the more conservative types of institutional investors, such as savings banks, life insurance companies and pension funds; although it is true that most individuals buy stocks in hope of profit, without too great regard for cautionary yield factors, and that in the aggregate mutual funds no doubt will remain stock buyers on balance as long as demand for their own shares keeps the investible cash flowing in.

The money shortage is due to the following combination of factors: The continuing credit-restraint policy of the Federal Reserve, heavy demand on the

banks for business loans, and heavy long-term bond financing by expanding corporations, as well as by states and local governments. It certainly precludes any relaxation of official monetary policy until there is some evidence—not yet present—of significant general easing in business activity. Whether it will induce some further tightening of Federal Reserve policy is problematical. There is this to be said: over-all industrial production remains stable at a high level, but is not rising; the expansion in consumer installment debt and mortgage debt—previously the principal sources of official concern—has been checked; and business borrowing, both short term and long term, serves generally productive ends and is calculated to add to the supply of material and goods. This is the opposite of inflationary in the long run, whereas expansion of consumer and mortgage credit adds to demand for goods and materials without directly augmenting supply. Whether or not the Reserve stands pat on the present policy, it is doubtful that the rise in bond yields has run its course.



On the basis of 1955 dividends, the industrial average is on a current yield basis of about 4.1%, a spread of less than 28% over return available on high-grade corporate bonds. Assuming a 10% rise in 1956 dividends, potential yield is around 4.6%, exceeding bond yield by a little over 43%. Either way, the favorable spread for stocks is the narrowest in some time. Neither it, nor absolute average dividend yields, are yet at the extremes reached at most past major bull-market tops. But the comparison with older times is distorted by the intervening large rise in income tax rates. "Take-home" dividend yield—especially when measured against return around 3% on many new issues of tax-exempt bonds—is not nearly as far above yield levels at past stock market tops as superficial inspection might suggest.

For many years now—in fact since the fairly severe but not too protracted 1937-1938 depression—the effect of rolling adjustments within the economy has been (1) to limit general excess in the boom periods, and (2) to hold general recessions within moderate bounds. The 1948-1949 recession centered in inventory contraction and reduced plant-equipment outlays, substantially balanced by rise in consumer and Government spending. The 1953-1954 adjustment stemmed from the same sources, plus reduction in Federal spending, but was limited by rise in consumer expenditure and active housing. Now we have a mild curtailment in housing, which may have run its course, and a larger one in automotive activity; but on the other side, governmental spending is rising, plant-equipment outlays are up sharply; inventories are expanding in excess of sales, but not of manufacturers' monthly new orders and backlogs; and consumer spending remains moderately on the plus side, even though the rise in installment debt has been checked. This may foot up to continuing stability, barring a third-quarter steel strike, with some late 1956 betterment possible. Meanwhile, rolling adjustments and group rotation will continue to be a stock market feature.

At best, prospects for 1956 business activity, earnings and dividends are on the fair-to-middling side, as compared with 1955 gains. Hence, it would not take any great further market advance, feeding increasingly on hopes, to put it into the frothy stage. Thus, a rise of only about a sixth of that already seen would put industrial stock yield down around past low extremes—even given a 10% rise in 1956 dividends—and very close to present bond yields, which meanwhile could well rise further. That has never happened before without exaction of a more or less painful market penalty.

Buyers for profit in the rest of this bull market are assuming increasing risk; and the chances are that, without too long a wait, long-term investment buying of most stocks can be done to better advantage than at present. —Monday, April 9.

NEW VISTAS OF OPPORTUNITY

Opened by Transcontinental Spread

By HAROLD WIELAND ***in collaboration with*** **ETHAN ALLEN PEYSER**

EDITOR'S NOTE: *Mr. Peyser is one of the principal authors of the industrial dispersion program adopted by the committee which developed it. During the war he was Director of the Foreign Division of the War Production Board and Director of the Combined Production & Resources Board.*

Except for the devastation wrought by minie balls and what today must be regarded as antiquated cannon, and the havoc that marked the trail of Sherman's march to the sea, this country has never suffered the ravages of war.

A perusal of world history might disclose whether any foreign power ever contemplated an attack upon our shores and if so it is reasonably certain that the wide expanses of the Pacific and Atlantic oceans, an efficient American Navy, and in the years since World War I, one of the world's strongest air defenses had discouraged any idea of an attack upon us that might have been entertained by a foreign nation.

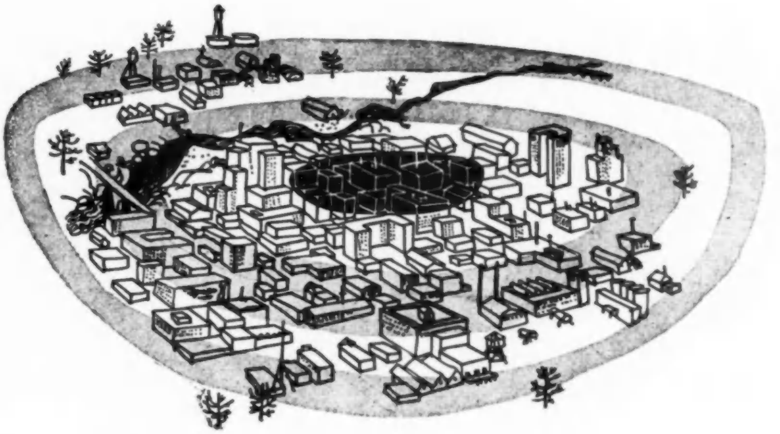
Since 1914, however, the strategy of war has changed as more diabolical machines were developed to destroy not only enemy personnel but to wipe out his ability to produce war's munitions by leveling his plants and factories to the ground. War, always ruthless, has become more so. International conflicts, prior to World War I, were waged largely by professional armies but, allowing for the destruction of cities that had been captured and destroyed, centers of population and industrial activity, generally speaking, went unmolested. Within the last few decades war has become "total" and no city is sanctuary whatsoever. The destruction of industrial production is now regarded as essential to victory. It is also evident that no longer will some nations staging an attack refrain from destroying the civilian population of a country. Neither will it be possible for the nation under attack to refrain from pursuing the same course in retaliation if it hopes to survive. Recognition of this provides the answer to the activity of the world's leading powers, particularly Soviet Russia and the United States, to develop a guided missile with an intercontinental range, capable of delivering an H-bomb having a destructive force equal to thousands of tons of TNT bombs dropped on Germany during the last World War. The supermissile is yet to come. At hand now, however, are 1,500-mile guided missiles, as well as jet planes that travel at 600 miles an hour and have a range of more than 6,000 miles without refueling. This is our 8-engine B-52 heavy jet bomber to which, so far as can be determined, Soviet Russia's "Bear" is comparable.

The existence of these modern war machines and weapons and the continued efforts of this country as well as Soviet Russia to build offensive and defensive might does not necessarily imply that war between the Western nations and those within the Soviet orb is inevitable. Nevertheless, the United States, never an aggressor nation, is and must be constantly alert to any enemy attack which, if it ever does come, would be delivered from the air with nuclear weapons. This eventual possibility makes it imperative that our growing air arm be provided with an expanding base system for, as General Nathan F. Twining, Chief of Staff, U. S. Air Force, expresses it, "nuclear weapons make dispersal and survival synonymous." He was referring to the necessity of reducing the vulnerability of our striking force and increasing its combat capability by dispersing our heavy bomber units and medium jet B-47s over a greater number of bases.

This recognition of the value of dispersion is also applicable to our industrial plants. The effects of the bombing of England and Germany in the last war, and the destruction our own airmen wrought in Nagasaki and Hiroshima with but two "primitive" A-bombs, made it obvious that the United States might suffer the same destruction of its cities and population in the event of another war. This became even more of a possibility with the development of jet planes moving with the speed of sound, annihilating space and compressing oceans to the size of mill ponds.

These basic fundamental changes in the art of waging war were highlighted almost from the beginning of the last global conflict. If anything was needed to bring this fact forcibly to the minds of the American people Pearl Harbor furnished the object lesson. It was a known fact that Nazi Germany had developed a guided missile and was working to perfect an atomic bomb. We, too, in great secrecy, were moving with all possible speed at Oak Ridge, Tenn., to develop a similar bomb. That we moved ahead of the enemy and were able to carry the first A-bombs

ndustry



to Japan only brought home the realization that such weapons were not our exclusive possession.

The realization that we were confronted with the possibility of having our industrial centers destroyed by similar onslaughts by our foes pointed up the necessity to locate new war plants outside of large metropolitan target zones. This has been called "dispersion" or "decentralization" of plants, a movement which brought about many outstanding changes in our industrial map. Where, for example, our largest aircraft manufacturers, prior to the war, were located on the West Coast or close to the Atlantic seaboard, the dispersion plan brought about the erection of important aircraft manufacturing facilities in Wichita, Kansas, practically in the heart of the Prairie, and similar facilities in Georgia, primarily an agricultural state. Close by Denver, Colorado, the government, for the purpose of setting up needed munitions manufacturing facilities outside of possible target zones, bought a complete ranch, including the steers grazing upon it, as a site for an ordnance plant that, when it went into production, had approximately 12,000 workers on its payroll.

Before Pearl Harbor, what is now Henderson, Nevada, was virtually a desert. The monotony of miles and miles of sand and sagebrush being only broken by an occasional clump of greasewood. It was, however, an ideal location, because of its isolation, for an industrial plant. The government immediately proceeded to construct a mile-long Basic Magnesium plant as a defense project utilizing some of Nevada's mineral resources, with water and power supplied by neighboring Lake Mead and Hoover Dam. With the need for magnesium for war ended, the plant shut down. For a time Henderson seemed doomed to a ghost town existence, and Nevada was to resume its chief role of farming and ranching, stock raising and mining. But not for long. In 1949, the State of Nevada acquired the magnesium plant from the War Assets Administration, together with the town-site, homes, business and public buildings, the electric utility system and other supporting facilities. Under direction of the Colorado River Commission, a state agency, new industries were attracted to the area. Manufacturing properties were sold to the manufacturers who would operate them. Families occupying homes were given the opportunity to purchase their dwellings. The city was incorporated and it acquired the schools and other public buildings. The community's electric utility system was purchased by California-Pacific Utilities Co.

Once again, Henderson became an area of throbbing industry, teeming with life where before the war there was nothing but sagebrush. Five manufacturers now occupy the former magnesium plant. They furnish employment to some 2,500 workers, with a payroll in excess of $10 million a month. These companies, producing chemicals and chemical byproducts, and processing lead, zinc, silver and titanium ores, are Stauffer Chemical, American Potash and Chemical, U. S. Lime Products, Pioche Manganese, and the Titanium Corporation of America. The latter, owned jointly by National Lead Company and the Allegheny Ludlum Steel Corporation, is one of the nation's major producers of titanium, the strong, lightweight, and corrosion-resisting metal. Only within the past month, it announced plans to increase its output at Henderson by approximately 67 per cent, or from 3,600 to 6,000 tons of titanium sponge a year. Two other companies located at Henderson are Manganese, Inc., producer of an alloy for special steel and other purposes, and Pabco Products, Inc., processing there gypsum for manufacture of wallboard.

The story of Henderson, while unique in some respects, is typical of how the plant dispersion movement during the war, plus American initiative in peacetime, has opened up new industrial areas across the country, creating new vistas of opportunity.

It would appear that this trend will continue on even a broader scale under a non-military defense program. The most important phase of which is to disperse new industries and expanding industries so that ultimately balanced 30 per cent of our gross national production would be outside of the metropolitan target zones. One of the advantages of such an acomplishment *(Please turn to page 130)*

NEW VISTAS OF OPPORTUNITY

Opened by Transcontinental Spread of Industry

1 NEW ENGLAND: New forces working within and upon industrial New England during and following World War II have brought about dramatic growth in this area. Despite the loss of a number of textile manufacturing firms, growth of other industries, movement of branch plants into the territory, and the starting up of new businesses diversified both in nature and output have improved New England's industrial climate, and created expanded employment opportunities.

2 NEW YORK STATE: From the area immediately outside of New York City, to the north and westward to Lake Erie, New York, always an important industrial state, has in the postwar years expanded substantially in the number of manufacturing plants and in diversification of output. Since 1946, General Electric Co., alone has added 12 modern manufacturing plants in the region extending from Syracuse down through the State's Hudson Valley. This latter area in recent years has undergone a radical change from principally an apple-growing country to one of commerce and industry. Among the more important industrial developments in the Valley have been the opening of International Business Machines Corp.'s huge research laboratory and manufacturing plant at Poughkeepsie, N. Y., employing more than 9,000 people.

3 DELAWARE RIVER VALLEY: In this area is located eastern Pennsylvania with Philadelphia as the hub, and western New Jersey which with that state's central and southern portions has been developing at a sharp pace industrially, marked by greater diversification of output. These include steel fabricating plants, electronic equipment manufacturers, and outstanding names in chemical, automotive, plastics, petroleum and yet other industries.

4 UPPER MIDWEST: This area has been steadily expanding through development of natural resources which include the Williston Basin with its tremendous oil potentials; production of taconite; expanding manganese output, and continuing gains in new commercial and industrial activity.

5 OHIO RIVER VALLEY: A number of major industrial developments have been and are taking place in this region sometimes referred to as "Atomic Valley" as a result of the Atomic Energy Commission's huge new Portsmouth (Ohio) Project.

6 SOUTHEAST: For the sake of clarification this is a region made up of the Carolinas, Tennessee, Mississippi, Louisiana, Alabama, Georgia and Florida. Although there was a moderate trend toward industrialization in some of these states, particularly by the textile and paper industries, the outbreak of the war provided impetus to the industrial development.

7 SOUTHWEST: This is one of fastest growing regions of the country. Expansion of the aircraft industry at various points throughout the state of California, made up by such companies as Douglas, Lockheed, North American Aviation, Ryan Aeronautical, and others, together with great influx of workers as well as other personnel required by the expanding number of commercial establishments and other industrial plants has brought about one of the greatest increases in population.

8 PACIFIC NORTHWEST: In line with the territory to the south, the Pacific Northwest is also one of the fastest growing and most promising economic sections of the United States. The region, embracing the fertile Columbia Basin and other agricultural sections, is also rich in timberlands as a source of raw material for woodworking plants, paper mills and others.

REAL VALUES BEHIND

75 LEADING STOCKS

By WARD GATES

In a time of high level general business activity, record or near-record corporate earnings, increased cash dividends, and a wave of stock splits, many investors are likely to forget the adage that constant vigilance is essential in relation to their investment portfolios.

For those who have been neglecting this task now is a good time to devote themselves to re-appraising their holdings. At hand are most companies' annual reports for 1955 which are replete with vital information relative to corporate conditions, sales and earnings trends, research activities, capital expenditures, financial conditions, and, in many instances, financing needs. Unlike Lot's wife, an investor need have no fear about looking back to 1955 records to learn the developments in a corporation's affairs. These pamphlet reports, the great majority of which are highly informative, provide an investor with telltales of improved positions of a company, an uptrend in earnings or, on the other hand, furnish indications of possible trends in the opposite direction.

Being possessed of the knowledge that can be gleaned from any company's annual report at the time of its issuance can prove of value by enabling a stockholder to determine a course of action which can be either to enlarge his commitment in the issue or to eliminate it entirely from his portfolio. Irrespective of the decision reached, an investor who will carefully scrutinize corporate annual reports has the knowledge that he has not fallen victim to complacency, a not uncommon weakness which is nurtured by the fact that because the purchase was wise at the time it was made, there is no reason to assume that favorable conditions underlying the stock will change. To have this confirmed from time to time by a study of corporate reports is compensation itself for such effort. Contrariwise, the investor, by this same scrutiny, is giving himself the opportunity to become aware of the development of not so favorable conditions. Quite frequently, unless such vigilance is practiced unfavorable trends are not learned of until it is too late to gain the greatest possible advantage from correcting action by eliminating the issue in question from the portfolio and purchasing some other stock in its place. It should be obvious to even the least experienced investor that the comparatively short time it takes to reappraise each issue making up one's holdings by weighing their status in relation to latest statistical and psychological evidence is likely to prove highly profitable.

Factors to be Considered

In doing this, several factors must be considered each in relation to the others. For example, in evaluating a specific issue weight must be given to certain definable facts and figures. In order to arrive at a fairly reasonable decision regarding the merits of an issue, the investor must weigh current market price of the shares with all other available statistical information, and then look at the stock in relation to its prospects, the trend of the market as a whole, and to other comparable issues. Of course, demonstrated earning power is a factor that should be given primary consideration. This is the most important factor, but even at that, what must also be considered is: the value and condition of plant and equipment; financial strength of the company, including, naturally, net working capital position, and the dividend policy, more particularly whether earnings are being plowed back into the business, and what percentage of total earnings is being paid out in dividends. There is no standard, nor even a "rule of thumb" measurement for determining the ratio of cash distributions to stockholders to total annual net income. Some corporations in certain fields, especially companies that are generally classified as having outstanding growth prospects may elect to hold cash dividends to a conservative rate as compared to earnings in order to have available funds for research and engineering development of new products, and expand present plants or erect new processing or manufacturing facilities. The growth potentials of a company also must be carefully weighed, although in this connection it should be recognized that in some instances, the stock of a company with outstanding growth potentials may be so highly priced in the market as to discount growth several years in advance. Then again, there may be other companies with great promise of growth but whose common shares

Vital Statistics on 75 Leading Stocks

INDUSTRIALS	Book Value 1946	Book Value 1955	Retained Earnings Per Share 1946 to 1955	Net Working Capital 1955 (Mil.)	1954 Net Per Share	1954 Div. Per Share	1955 Net Per Share	1955 Div. Per Share	Recent Price	Div. Yield	Price-Times Earnings Ratio 1955
Allied Chemical & Dye	$25.36	$39.11	$16.27	$165	$4.73	$3.00	$5.44	$3.00[1]	122	2.4%	22.4
Allis-Chalmers Mfg.	41.16	69.34	29.52	258	7.20	4.00	6.05	4.00	72	5.5	11.9
Aluminum Co. of America	19.84	25.52	24.03	223	2.95	.80	4.18	.95	112	.8	26.8
American Can	14.67	27.18	13.55	140	2.53	1.55	3.04	1.55	48	3.2	15.7
American Smelting & Refining	21.04	47.80	25.72	144	3.30	2.00	5.52	2.80	56	5.0	10.1
American Tobacco	29.70	56.94	24.84	555	7.45	4.40	6.12	4.40	77	5.7	12.5
Babcock & Wilcox	22.41	68.34	43.10	85	9.31	2.00[1]	7.86	2.75[1]	127	2.1	16.1
Bendix Aviation	17.83	36.58	18.91	111	5.62	2.00	5.66	2.10[1]	55	3.9	9.7
Bethlehem Steel	57.39	116.98	65.00	809	13.18	5.75	18.09	7.25	163	4.4	9.0
Boeing Airplane	14.27	36.79[2]	39.80	86[2]	9.85	2.00	9.33	3.25	80	4.0	8.5
Borg-Warner	10.04	26.81	46.84	145	3.27	1.67	5.17	1.92	49	3.9	9.4
Caterpillar Tractor	8.46	21.17	11.25	93	2.91	1.00	4.04	1.60	67	2.3	16.5
Chrysler Corp.	32.51	74.84	38.96	305	2.13	4.50	11.49	4.00	75	5.3	6.5
Coca-Cola	28.46	39.70[2]	19.34	94[2]	6.08	5.00	6.44	5.00	125	4.0	19.4
Continental Can	18.19	29.80	22.62	110	2.76	1.35	3.22	1.50	43	3.4	13.3
Corn Products	10.36	15.60[2]	6.91	32	1.75	1.28	2.25[3]	1.33	31	4.3	13.8
Corning Glass	3.31	10.46[2]	7.54	41[2]	2.59	1.20	3.00[3]	1.50	83	1.8	27.6
Crown Zellerbach	4.10	20.53	32.44	114	2.58	1.95	3.11	2.10[1]	65	3.2	20.9
Deere & Co.	20.54	43.04	23.45	304	2.76	1.50	3.91	1.75	30	5.8	7.8
Douglas Aircraft	12.46	36.41	11.87	83	9.80	4.32	7.65	4.00	83	4.8	10.8
Dow Chemical	3.66	13.86	7.49	149	1.42	1.00	1.64	1.00[1]	68	2.4	41.4
Du Pont	14.28	37.24	11.66	595	7.34	5.50	9.24	7.00	230	3.0	24.8
Eastman Kodak	13.28	26.79	16.75	238	3.99	2.00	4.66	2.20[1]	88	2.5	18.9
General Electric	4.98	12.82	6.41	288	2.30	1.47	2.31	1.60	62	2.5	26.8
General Foods	20.52	36.12[2]	16.93	195[2]	4.66[2]	2.75	5.29[2]	3.10	92	3.3	17.3
General Motors	4.08	14.08	8.66	2,058	3.02	1.33	4.26	2.17	46	4.7	10.8
Goodrich (B. F.)	13.34	39.32	23.51	241	4.40	1.60	5.26	1.90	88	2.1	16.7
Goodyear Tire & Rubber	18.15	40.00	25.85	460	5.04	1.62½	5.90	1.90	73	2.6	12.3
Gulf Oil	26.84	57.40	41.23	439	7.16	2.00[1]	8.19	2.25[1]	101	2.2	12.3
Ingersoll Rand	7.33	18.06[2]	12.66	100[2]	3.80	2.50	4.54	3.00	63	4.7	13.9
Inland Steel	27.49	60.47	34.74	165	7.92	3.75	9.52	4.25	89	4.7	9.3
International Harvester	32.15	47.83	17.22	399	2.24	2.00	3.60	2.00	36	5.5	10.0
International Nickel	16.32	27.70	11.05	239	4.35	2.90	6.15	3.75	92	4.0	14.9
International Paper	18.52	48.47	35.05	141	7.05	3.00[1]	7.54	3.00[1]	131	2.2	17.2
Johns-Manville	12.17	26.03	12.21	37	2.62	2.12½	3.67	2.12½	50	4.2	13.6
Kennecott Copper	39.41	62.79	22.54	297	7.20	6.00	11.60	7.75	138	5.6	11.8
Liggett & Myers Tobacco	46.92	60.85[2]	15.39	332[2]	5.30	5.00	6.46	4.00	68	5.8	10.5
Monsanto Chemcial	2.95	16.70	6.93	135	1.45	.83	1.99	.92[1]	48	1.9	24.1

(1) Plus stock.
(2) 1954.
(3) Estimated.

sell at relatively low prices solely because the rank and file of investors have not become cognizant of the possibilities. That such opportunities are available points up the value of investment research to uncover sound profit making investments, albeit some may not bear fruitage except over the long-term. Frequently, such opportunities are not readily discernible. They can be uncovered, however, if an investor is willing to devote time and effort to closely perusing company reports in which will be found the clues to growth trends.

By pursuing a study of individual issues for profit opportunities, the investor also has the opportunity to see where it might be advantageous to switch out of a stock he is presently holding into another of comparable or greater merit, having more attractive market possibilities or returning a higher yield.

The present is a particularly good time to make a complete analysis of one's investment portfolio. This for the reason that the market, allowing for moderate setbacks from time to time, has been in an uptrend carrying many issues to record high levels, some of the price gains being engendered by speculative enthusiasm that has given but slight consideration to realistic values. In other words, price gains have been substantial as a result of speculative appraisals which ignored basic investment merit of these issues.

It has been frequently stated in these columns that an investor, buying common stocks for income return or long-term market appreciation, or both, is committing a grievous, and undoubtedly, a costly error in ignoring these erratic price movements. To do so may cost him the opportunity to take a profit and reinvest the proceeds of the sale in another issue that appears to have outstanding profit possibilities. A not uncommon fault among investors is that they become "wed" to a particular stock, especially when it has moved up appreciably from their purchase price. Apparently, they become enamored of it because of its subsequent performance and although it is difficult to understand, they feel obligated to "stay" with it. True, an analysis of a company, when it was selling, say, at 40, would show that it was "lagging" behind the market, from the standpoint of earnings and dividend yield when compared with other stocks of companies in the same industry, it does not necessarily follow that the same conclusion can be drawn with the stock selling at 80. Public "fancy" for the stock solely because of a sudden show of market strength may have pushed its market price beyond reason. After such a "runup" an alert investor will reappraise the issue for the purpose of determining whether it is as attractive as more conservatively priced issues or whether it is still undervalued. At a market price of 80 a share, an analysis might prove the stock may still be attractively priced in relation to its potential.

The Undeterminable

In arriving at either decision after even the most careful and thorough analysis, there still remains the undeterminable factor which only future events can develop. It is not so easy to judge the prospects for a specific company. If it was, investing would be exceedingly simple, the purchaser having only to figure his cost in relation to anticipated earnings and dividends to find the anwser to the question as to whether to buy this or that stock. At best, prospects for a particular company or an industry can be determined only in a general way, and so far as the latter is concerned it is reasonably certain that these prospects will vary company by company within that industry. Only by resorting to analytical comparisons can these differences be uncovered.

For instance, the outlook for two companies, both of which are in the same industry and producing identical products, may differ greatly, for varying reasons. One company may have a better distributing organization or its plants may be more strategically located than the other. It also may have achieved a stronger position through pursuing a broad research and engineering development program creating improved established product lines as well as expanding sales through new products. Giving an edge over its competitors is a well-timed capital improvement program, giving the company more efficient plant and equipment and lower operating costs.

The postwar years constitute a notable era for the number of companies in various industries that have executed broad capital improvement programs; greatly widened their research activities, and developed new products, using for these purposes substantial sums out of year to year net earnings supplemented, in some instances, by the raising of additional necessary funds for these purposes through issuance of new securities, bank loans or borrowings from insurance and other financial institutions. There are any number of corporations in varying industries that have had no necessity to look to outside sources for funds to carry out their programs, having ample cash through retained earnings and other internally generated funds.

Preparing For Growth

These programs of rebuilding and expansion, in many industries, have been of first magnitude. Citing the steel industry as an example, capital outlays from 1946 to 1955 for new equipment and construction totaled $7,014 million, to which will be added approximately $1.2 billion more in 1956 for similar purposes. Although much of annual expenditures in the postwar years has gone to increase steel making capacity and expand facilities such as rolling mills and other equipment, a portion went to achieve technological progress in significant and rewarding fields. One of the more spectacular developments of the past 10 years has been the employment of oxygen to improve combustion in steel furnaces thereby reducing carbon in low carbon steels. Greater combustion efficiency in open hearth furnaces, another principal advance, has decreased by about 40% the amount of heat required per ton of steel in many shops, permitting individual furnaces to operate at better fuel consumption rates. These and other developments of the postwar years have played an important part in the industry's expansion, collectively helping to boost steel capacity by approximately 20 per cent.

While the entire steel industry, through all of 1955, operated at close to rated steelmaking capacity which in itself permitted efficient operation, the benefits accruing from the reinvestment programs of various companies, also found reflection in net earnings. An outstanding example was the record that was written by (*Please turn to page* 134)

Vital Statistics on 75 Leading Stocks—(Continued)

INDUSTRIALS *(Continued)*	Book Value 1946	Book Value 1955	Retained Earnings Per Share 1946 to 1955	Net Working Capital 1955 (Mil.)	1954 Net Per Share	1954 Div. Per Share	1955 Net Per Share	1955 Div. Per Share	Recent Price	Div. Yield	Price-Times Earnings Ratio 1955
Montgomery Ward	$51.47	$95.15[2]	$43.58	$607[2]	$5.20	$3.50	$5.23	$4.75	90	5.2%	17.2
National Biscuit	14.65	22.76	9.35	48	2.59	2.00	2.85	2.00	37	5.4	12.9
National Lead	7.21	16.82	7.88	113	3.05	2.10	4.02	2.85	94	3.0	23.3
Phillips Petroleum	25.88	54.24	25.99	138	5.20	2.60	5.55	3.00	96	3.1	17.3
Procter & Gamble	18.77	39.92[2]	20.60	164[2]	5.42	3.45	5.92	3.50	108	3.2	18.2
Radio Corp. of America	.76	11.73	11.83	327	2.66	1.20	3.16	1.35	48	2.7	15.1
Republic Steel	22.93	39.69	21.33	256	3.55	2.43	5.59	2.50	48	5.2	8.5
Sears Roebuck	4.78	12.92[2]	8.75	857[2]	1.94	1.00	2.25[3]	1.00	33	3.0	14.6
Socony-Vacuum	28.61	54.27	26.56	474	5.25	2.25	5.93	2.55	73	3.4	12.3
Standard Oil of N. J.	10.34	22.27[2]	13.61	1.522[2]	2.98	1.51	3.65	1.75	60	2.9	16.4
Texas Co.	29.69	60.71	33.62	538	8.24	3.75	9.57	4.25	134	3.1	14.0
Texas Gulf Sulphur	6.34	10.19	7.02	57	3.05	1.83	3.23	2.00	37	5.4	11.4
Union Carbide & Carbon	12.71	25.16	16.85	448	3.10	2.54	4.83	3.00	121	2.4	25.0
U. S. Gypsum	9.36	25.17	14.18	84	3.98	2.00	4.98	2.20	70	3.1	14.0
U. S. Rubber	17.15	37.12	22.08	259	4.29	2.00	5.24	2.00[1]	59	3.3	11.2
U. S. Steel	23.66	43.48	16.94	695	3.23	1.50	6.45	2.15	59	3.6	9.1
Westinghouse Electric	24.59	44.89	21.34	736	4.78	2.50	2.46	2.00	59	3.3	23.9
RAILROADS											
Atchison, Topeka & S. Fe	158.00	219.06	72.86	110	12.35	7.00	14.70	7.00	160	4.3	10.8
Atlantic Coast Line	99.58	122.00[2]	27.26	31	4.75	2.00	5.60	2.00	55	3.6	9.8
Chesapeake & Ohio	45.83	58.53[2]	17.89	49	5.01	3.00	7.25	3.12	61	5.1	8.4
Chicago, R. I. & Pacific	68.56[4]	92.25[2]	49.28[4]	23	5.48	2.50	5.45	2.50	41	6.0	8.7
Great Northern Rwy.	78.04	96.64[2]	23.38	65	4.21	2.10	5.27	2.35	46	5.1	8.7
Illinois Central	92.57	133.12	37.25[5]	53	7.68	3.12	8.61	3.12	69	4.5	8.0
Louisville & Nashville	101.73	137.73[2]	43.53	51	8.09	5.00	10.53	5.00	98	5.1	9.3
Southern Pacific	86.24	82.19[2]	40.73	95	4.90	3.00	5.71	3.00	56	5.3	9.8
Southern Railway	93.18	127.09	50.63	59	8.96	3.50	13.48	4.00	121	3.3	8.9
Union Pacific	134.20	169.23	71.79	104	14.76	6.00	16.93	7.00	183	3.8	10.8
UTILITIES											
American Gas & Elec.	10.70	25.47	10.63	43	2.52	1.68	2.92	1.85	58	3.1	19.8
American Tel. & Tel.	133.40	150.41	14.92	524	11.42	9.00	12.27	9.00	183	4.9	14.9
Cleveland Elec. Illum.	8.58	20.18	9.90	1	1.93	1.30	2.49	1.45	40	3.6	16.0
Commonwealth Edison	24.34	30.71	5.42	39	2.70	1.80[5]	2.62	1.90[4]	43	4.4	16.4
Consol. Edison, N. Y.	40.89	42.98	5.86	(d)12	2.98	2.40	3.12	2.40	48	5.0	15.4
Detroit Edison	14.88	27.49	5.10	...	2.05	1.60	2.43	1.60	35	4.5	14.4
Niagara Mohawk Power	11.64	20.40	2.75[6]	(d)12	2.11	1.60	2.22	1.65	33	5.0	14.8
Pacific Gas & Electric	13.25	33.97	6.73	(d)60	2.88	2.20	3.32	2.20	53	4.1	15.9
Philadelphia Electric	13.49	22.69	6.17	16	2.25	1.75	2.39	1.80	40	4.5	16.9
Southern Calif. Edison	11.89	36.73	8.81	(d)14	3.06	2.00	3.32	2.30	52	4.4	15.6

(1) Plus stock.

(2) Estimated.

(d) Deficit.

(4) Plus 3 shares Nor. Ill. Gas. for each 10 shares held.

(5) Plus 1 share of Nor. Ill. Gas for every 25 shares held.

(6) Since 1950.

CONTINUING INDUSTRIAL EXPANSION

By HOWARD NICHOLSON

- *Industry looking ahead*
- *New Plants for new Products*
- *The Race for Industrial Supremacy*

In the three years, 1953-1955, the American economy did many things it never achieved in any prior three-year period. It produced more steel, aluminum, automobiles; it distributed more buying power to more people; it built more roads and more schools; it provided more jobs, at better pay. In a word, it produced an altogether fantastic abundance.

But perhaps the most fantastic thing it did was to reinvest something like $85 billion in its own future, in the form of machinery and equipment, industrial buildings and office buildings, commercial vehicles, power plants, rail and air transportation facilities, farm machinery and equipment, communication equipment, mining equipment. By all the available evidence, the American economy geared up for future production at an unprecedented rate.

And by all the evidence, the rate will continue at unprecedented levels in the foreseeable future.

In 1956, capital spending by American corporations and unincorporated businesses will amount to a phenomenal $35 billion, almost 25% more than in the previous record years 1953 and 1955. Because this spending is adding to the basic dimensions of the American economy, it is worth a long look; and the reasons and stimuli that underlie the $35 billion figure are worth careful analysis. For preserving the basic growth rate of America is fundamental to our future prosperity and, in fact, our future security as a nation.

The Historical Record

In 1953, capital spending by American business firms amounted to about $28 billion, of which roughly $12 billion was spent by manufacturing companies. During the recession of 1954, as profits subsided, as the business outlook was clouded by serious doubts, and as the course of defense spending turned down at the end of the Korean war, businessmen curtailed their expansion outlays to await developments. Throughout 1954, the annual rate of such outlays drifted slowly downward, and by early 1955 it had sunk to about $25.6 billion. Durable goods manufacturers and the railroads, both of which were relatively hard-hit by the 1954 recession, cut back the most, but almost every industry exhibited some effects of the 1954 recession.

By the end of 1954, however, it was becoming increasingly clear that recession forces were waning, and that at least a moderate business recovery lay ahead. And as 1955 progressed, it became clearer that what was happening was not a moderate recovery, but a full-blown flowering of the postwar boom. As business operations improved, so did capital spending plans, and by late 1955, companies were spending money for new machinery and equipment as fast as they could place the orders. (Placing orders was not always easy: under the pressure of booming automobile demand and machinery demand, the markets for basic metals required for production had become exceedingly tight. Steel, in particular, was in actual condition of scarcity.)

By late in 1955, and by early 1956, the pressure for capital spending was extremely strong and, for the first time in a year, the decline of automobile production was freeing substantial quantities of steel and other raw materials for use in the capital goods industries.

As a result, when the Department of Commerce made its survey of annual business investment plans, in late February and early March, it came up with some altogether sensational findings. The steel industry, with plans to add about 15 million tons of steel capacity in the next three years, was intending to spend in excess of 50% more than in 1955; intentions of the automobile industry, too, pointed to more than a 50% increase. The chemicals industry expected to spend some 40% more; planned railroad spending was up more than 40%. Almost all other manufacturing industries planned increases in the neighborhood of 20%. Significantly, the machinery industry itself figured to spend 20% more, to increase its own capacity, than it had in 1955.

Moreover, the survey found that the spending rate *during* 1956—from quarter to quarter—would probably be rising, so that there was a real possibility that 1957 would be at least as high as 1956, and perhaps higher.

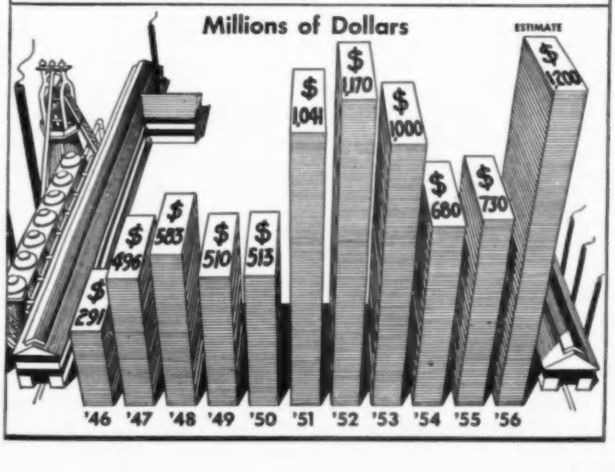
This tremendous burst of capacity-spending, on top of the enormous combined expenditures of the three years 1953-1955, is, obviously, remaking the industrial face of the United States. It is boosting output capacity for a broad range of vital raw materials: steel, aluminum, lead and zinc, cement, glass, petroleum, and an endless range of new metals, chemicals, and pharmaceuticals. And it is producing king-size increases in the nation's capacity to turn out both consumer and business finished goods—everything from small appliances to huge forging presses. Finally, it is, directly or indirectly, contributing to a basic expansion of our capacity to produce the weapons of war.

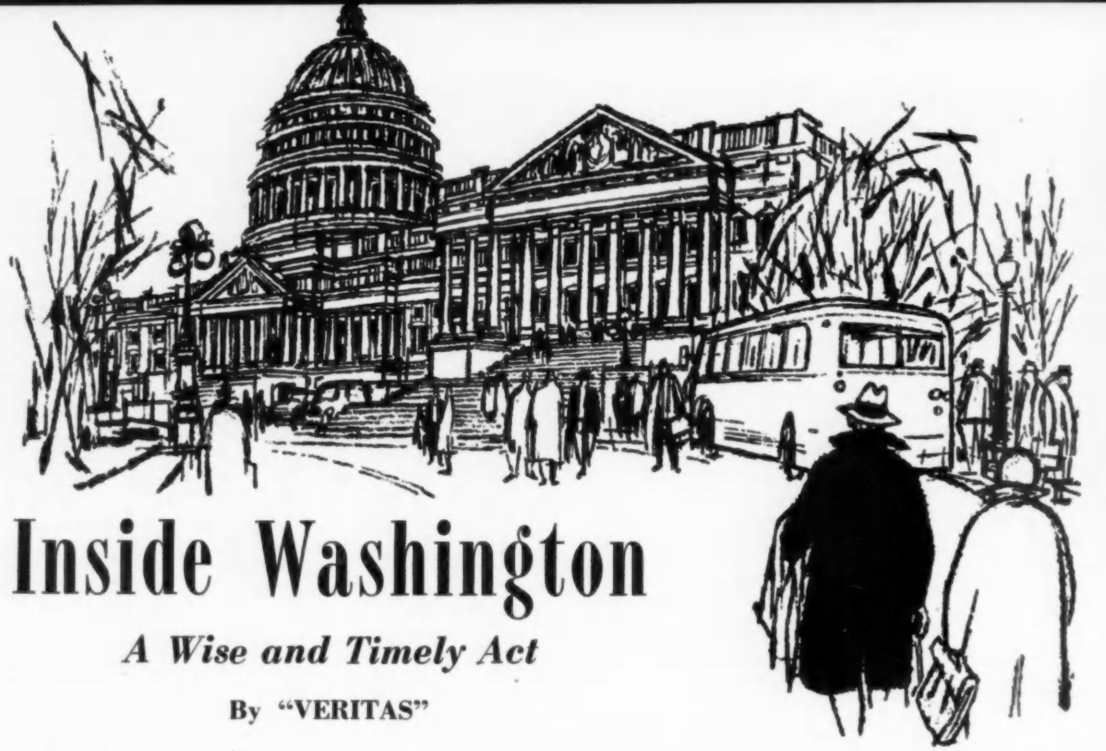
Behind this upsurge of industrial expansion are six basic motivating forces. At the moment, all six of these influences are in an ascendant phase, which accounts for the tremendous current pace of expansion. Some of the six may begin to falter over the next several quarters, but behind them lies a seventh stimulus to expansion which might provide tremendous new impetus to capital expenditures.

1. In 1955, corporate profits, before taxes, climbed above $43 billion, for the first time on record. Earnings of corporations in 1955 were roughly 30% greater than in 1954, and about 35% better than the best pre-Korean year. Moreover, only a small fraction of the total earnings figure represented illusory "inventory profit" resulting from the impact of an upward price trend on inventory valuations. After taking account of inventory profit adjustments, and corporate taxes, the year's net earnings were well in excess of anything known in the past. Obviously, high earnings levels make possible a high rate of reinvestment in business plant: in 1955, about $10.5 billion was withheld from stockholders for reinvestment.

2. Capital consumption allowances under income tax law—the so-called "depreciation" account—now yields a tax deduction of something like $32 billion of yearly income not subject to tax. In recent years, this deduction has been rising at the rate of about $2 billion per year; it may not rise so rapidly in the future, because many certificates of accelerated amortization, under the 5-year Korean speedup, are about exhausted. Nevertheless, the growth of depreciation allowances has (*Please turn to page* 118)

Iron and Steel Companies' Annual Outlay For New Plants and Equipment





Inside Washington

A Wise and Timely Act

By "VERITAS"

LITTLE SUMMIT meeting at White Sulphur Springs is being passed off as a slight pleasantry or interlude between important affairs of state, but it was much more than that. It was not casual; it came about because the White House and the State Department have been reappraising the diplomatic pattern and came to realization that things nearer home were being neglected in favor of the more distant concerns. Relations with Canada, except for a few economic questions which can be answered at the bargaining table, have never been better. But the corresponding border on the South had been getting almost no attention. Calling Mexico's President, Ruiz Cortines, as a full partner was wise and timely.

HEMISPHERIC matters have not been treated with the degree of care that gives reassurance at home. Rep. Jimmy Roosevelt has been wrangling with the State Department because the diplomats didn't want the Roosevelt Committee to investigate United Fruit Company in open hearing. The Company sprawls over the banana countries, makes a good dollar, and might give the Reds ammunition to stir unrest in the producing and shipping areas. The former President's son pouted small business would benefit by publicity. But while American companies operate in foreign fields, the State Department is aware of what goes on in those areas. The moral, which Roosevelt doesn't seem to get, is quite clear.

FARM BILL'S FATE has not given Ike and his agricultural aides the worry generally read into efforts to pass it in the form it went to Capitol Hill. Secretary Ezra Benson worked hard but light-heartedly for the measure and in political headquarters it was taken as one of those things that really doesn't matter from a vote standpoint. The GOP has known right along it didn't have to depend on Congress entirely. Whatever might be done about price supports, Ike could create the dollar-free soil bank on the basis of existing legislation. He doesn't even have to ask Capitol Hill to appropriate money for it.

EASTER RECESS invited inventory-taking on legislation and the report is a farm bill readied for final steps some appropriations bills, and committee hearings which seem more calculated to produce election talking points than helpful action. The "slow-motion Congress" has done nothing solid so far. Ahead are unavoidable decisions on defense, foreign aid, budget balance or income tax cut, debt limit extension to name a few. And there are fewer than 100 shopping days before Election.

WASHINGTON SEES

The political secret weapon of the democratic party is Harry Truman and republican bigwigs admit the name gives them greater discomfort than any other currently linked with Presidential nomination. Harry insists he will have no part of it.

There seems little doubt that Mr. Truman could get the nomination without seeking it. It is unthinkable that the former President would come out of retirement as an office seeker. The politically-wise Missourian undoubtedly would know the political value of what would be the first genuine Presidential draft in United States History—or, at least, that's the way backers of the idea describe it.

Under the glamor and excitement of a free-swinging pre-convention campaign is a practical problem that will be coming more into focus as the main bout time nears: money. The democratic coffers aren't filled in the manner of the long Roosevelt-Truman run and the heavy donors in politics are not distinguished for party loyalty in a year of less-than-good chance of success.

Truman, it is pointed out, could win financial backing. And with his "give 'em Hell!" manners he would save the campaign from falling sound asleep.

As We Go To Press

The House Committee report ripping procurement and planning practices of the Pentagon in the field of air arms, including missiles, is only the beginning. The Senate hasn't cut loose yet! There is conservative betting that the aggregate will produce a democratic nominee for President of the United States, in the person of Senator Stuart Symington of Missouri. The First Secretary for Air cannot be accused of finding fault as a means of ushering in his candidacy; he has been hammering on the subject for the past few years, and the House Committee report underscores his complaints convincingly. More important that any partisan political angle is the fact that the Pentagon seems to be aware not all is well. That gives hope for improvement at least.

Meanwhile, Secretary Charles E. Wilson has been making out a good case that the United States should not expect to match the Soviet defense on an item-by-item basis. Wilson is applying to military procurement the methods his automotive experience suggest: he isn't going to stock up hub caps to the exclusion of spark plugs. Wilson says, convincingly, that the future of democracy depends on its preparation in the whole field of "deterrents," and that it is wise to keep ahead of the Soviet in as many departments as possible but not to be distracted by reports that Russia is far ahead on any single item or group.

Symington and others, including defense-minded members of Wilson's own party, say he's too complacent with respect to planes. The B-52 bombers are coming off the line at the rate of only four a month and the comparable Red Bison bomber production figure multiplies ours. It is bombers that must fend off attack until missiles are perfected . Eventually the B-52 must displace other types in use, due to the fact that overseas bases of the United States are becoming more insecure. But there can be no effective displacement when a four-a-month is the production schedule and there's no request before Congress to step it up appreciably.

Fund- raising activities of national veteran organizations and of groups using patriotic business names are to be investigated. The drain in money and in time of evaluating pleas for assistance is a serious business worry. Idea of the House Veterans Committee is to root out the fraudulent and protect the proper ones. The legitimate groups have no obections but a great many, especially some of the newer ones, are going to be asked pointed questions. In the agenda is the subject of "outside" organizations using the names of established veteran groups for purposes of solicitation, paying a pittance to the vets "after expenses." Most of the organizations are chartered by Congress and the right of fund regulation is inherent.

Senators are finding no investigation of campaign fund-raising methods will be thoroughgoing without affecting the methods most of them use, and the effort in Washington today is to turn aside from the piously-declared objective and resolve the problem in platitudes. There is no "honest election law" in sight; the campaign contribution tap may be expected as usual. In the case of regulated firms and large corporate groups, executives will again be seen by solicitors from both parties, one offsetting the other. The Senate leaders, Democrat Lyndon Johnson and Republican William F. Knowland seem to have laid down their weapons to make common cause against restrictions in general, and those which Senator Thomas Hennings has in mind, in particular. If the Hennings Committee is sidetracked from the elections study the matter ends for all practical purpose.

A type of wishful thinking is being cultivated in labor groups. They are attempting to place Richard Nixon in a position comparable to the late General George Patton, and confronting President Eisenhower with the dilemma he faced in World War II. The Laborites go on: "It may seem curious to suggest that the character of the late General Patton had anything in common with Richard Nixon, but in their respective fields of battle they share the reputation of furious, if highly

unorthodox fighters. Like Nixon, Patton not only outraged the enemy, he outraged some of his own men. The Supreme Allied Commander (Ike) was obliged to reprimand Patton sharply over the famous soldier-slapping incident. The General-turned-President has not yet publicly reprimanded the vice president for slaps, blows, or anything else, and he may not. Yet circumstances take curious turns.

State's Righters have a new complaint but it's not an extension of the sociological one raised by racial integration in the public schools. The Federal Government is making plans to move into a state-administered area with a model workmen's Compensation Bill. This is a field which had its beginnings at the state level and an excellent body of precedents has been established, not a wholly uniform one but satisfactory for demonstrated needs. If there is to be a Federal Act, with uniformity, state administrators wonder whether it could be elastic enough to cover the special needs of each area -- the heavy industrial, the agricultural, the mining, etc. Selected leaders of business, industry and organized labor have been given drafts of the bill -- not to accept or reject, but to suggest modifications for re-writing, if any appear desirable.

The Department of Labor doesn't consider its project revolutionary. It doesn't in fact see it in any other light than as a helpful effort to pull together in codified form the best features of each state statute. The fault seen from the State House level is the uniformity which cannot take heed of local demands. Business leaders see another compelling objection: there's a section in the model law which provides for a state compensation insurance fund. Employers in most states now use private insurance companies or carry their own workmen's compensation liability. And when Washington combines what it regards the "best" features of 48 state laws, it's likely to add up to the "most costly" aspects of all of them. Certain to be written into the law, if one comes to pass, is no ceiling on duration or total amount of payments, broader definition of "in the course of employment," and inclusion of mental impairments.

The financial and business world will suffer a heavy loss when the next Congress convenes without Rep. Jesse Wolcott, Michigan republican, answering the roll call. After more than 25 years of service, he has decided to retire to private life and earned rest. Long a staunch private enterprise advocate, opponent of public housing, of rent control and of "too much government interference with business," Wolcott in recent years has been alternately ranking minority member or Chairman of the powerful House Banking and Currency Committee, as shifting political fortunes dictated. An intense political partisan, Wolcott yet is popular on both sides of the political aisle and he has been accorded a degree of leadership in his special areas no one else enjoys today.

The consensus in the ranks of Washington's economists, government and private, is that business slow-down indicators are safe to play down. On the surface at least, they find the economy excellent; on a high plateau but not showing the spectacular increases forthcoming at this time last year even though pickup signs are spotted here and there. Businessmen, according to the Department of Commerce, plan to improve their plant capacity at a record $35 billion in 1956, up 22 per cent from last year. Consumers, too, according to the Federal Reserve Board are optimistic about their own futures: one in each ten families is planning to buy a new home this year -- the same proportion as last year. Nevertheless, automobiles, homebulding, farm income, are currently below last year, and business inventories are high, with credit still a problem.

Unless the present state of thinking gives way to a more adventuresome one, or succumbs to political lure, the tax reduction drive is over. Congress lost no time and made no protest while doing the bidding of the White House on retention of corporate income tax and a long list of excise taxes wihch had been scheduled to end April 1. In the broad field of federal government financing the picture has been confused from the year's beginning and there is no sign of clearing. Ike and the Treasury have been insistent budget balancing must come first. But the President's budget with its $400 million surplus still is regarded only as a pleasant bookkeeping entry. It seems certain now that deficit spending will continue.

Communist Efforts

to transform China into an Industrial Power

By V. L. HOROTH

(*EDITOR'S NOTE:* This is a particularly timely article, its appearance coinciding with the elaborate Chinese Industrial Exhibition now being staged at Cairo, Egypt.)

Most of the reporting in our daily press tends to play up the weaknesses and shortcomings of communist-dominated countries. This is quite natural in view of Western distaste for communist police-state methods and our sympathy for the unlucky peoples who are suffering as tools of communist imperialism. But belief that the evil system of communism was inherently weak and bound to collapse, led to a false sense of security for which we are now paying dearly in defense preparations.

There is serious danger that the same kind of false security and disdain which the West built up in respect to Sovietized Russia is now being duplicated in respect to Communist China. The Chinese intervention in the Korean War has given the United States reason to detest totalitarian henchmen in Pei-ching (Peking) even more than the Kremlin gangsters in Moscow. Life is unquestionably even cheaper in China than in Russia. Peking's slave labor camps for recalcitrant businessmen and farm collectivization with its ensuing famines may very well take tolls of tens of millions of innocent lives, compared to only millions in Soviet Russia. But despite Peking's obvious disregard for human life, it is short-sighted to ignore the vast changes now going on in Red China—even if the effect of these changes may not be felt by the outside world during the next thirty years.

Luckily, however, a recently published tome by Dr. Yuan-li Wu, *An Economic Survey of Communist China* (Bookman Associates, New York, 1956), has filled much of the gap in our understanding of Red China in action, and her industrial and military potential. Based on an exhaustive survey, Dr. Wu's book pinpoints both the strengths and the weaknesses of communist achievements. It describes the methods by which some 340,000 private concerns out of some 1,300,000 existing in China in 1950, were found "guilty of crimes against the people" and liquidated.

Most of the material brought together for our readers in the story that follows, is based on Dr. Wu's exhaustive and disturbing book as well as on the stories of some of the eye-witnesses (non-Americans) who were permitted to travel in China in recent months. One of them was M. Robert Guillain of the Paris *Monde*, and another, Professor E. S. Kirby of Hongkong University. [a]

The Magnitude of the Task

By way of introduction, the following are some of the basic facts for the reader to keep in mind about Red China:

Including North Korea and North Vietnam, which are Red China's political satellites and tied to her economically, the whole area has about 4 million square miles—more than the Continental United

[a] Other important books on Red China include: R. L. Walker: *China Under Communism* (Yale University Press), Robert S. Elegant: *China's Red Masters* (Bookman Associates), and Carsun Chang: *The Third Force in China* (Bookman Associates).

States, Alaska, and a big slice of North Mexico combined. On this territory live, if the communist claims may be trusted, some 600 million people, increasing at the annual rate of about 12 million. However, well over 90 per cent of this population is crowded into the eastern one-third of the country, in the lower valleys of several great rivers flowing down from Central Asian plateaus. One of them, the Yellow River, or as the Chinese call it, "the River of Sorrows," plays an important part in communist flood control plans. It carries more silt than any other river in the world, and over the centuries it has built up its course some 35 feet above the surrounding countryside. Some 100 million Chinese live in constant fear that the dykes may break.

Some 80 per cent of the Chinese live on the land. According to Dr. Wu, they comprise about 100 million farm households, each tilling and living off a "postage stamp" area averaging less than four acres. The Chinese peasant merely subsists; the per capita annual income is estimated at about $40, which makes even a Muscovite seem a plutocrat. It is rather difficult to imagine how Red China can save or, rather, squeeze any capital for financing an industrialization program. Yet she is doing it with resources less developed and industries less diversified than were those of the Soviet in the early 'twenties.

The Consolidation Period

Apart from all the above problems, the communists found the country weakened by 12 years of Japanese occupation and Civil War, with the best section, Manchuria, despoiled by Russian plundering. The first four years—1949-52—had, therefore, to be devoted to rehabilitation and consolidation. By 1952, the administration of mainland China was unified as it had never been since the days of the old Dowager Empress in 1910. Chinese sovereignty over Sinkiang—the New Province—which had come under strong Russian economic influence, was re-established. Even Tibet, which had worked itself loose, was sucessfully "liberated" and tied to Red China's sovereignty.

One of the really notable achievements of the communist rule was the straightening out of the currency mess, in the process of which all private gold and silver holding, including ornaments, were confiscated under penalty of death. But for the first time in some 40 years, China established a uniformly accepted currency—"people's money" or "yen-min pi." A period of deflation followed and a strict rationing system was established. Prices are generally stable, though some black marketing is reported.

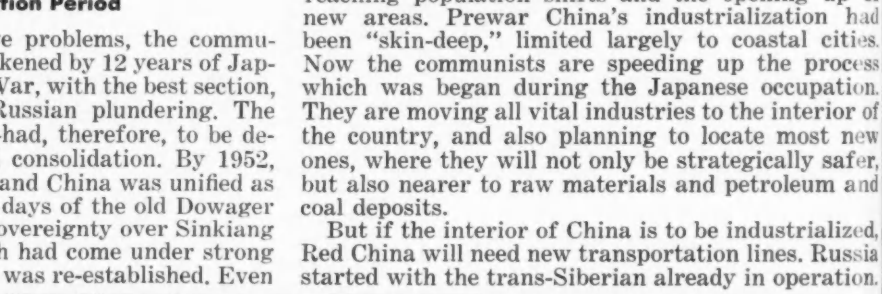
Along with political and monetary unification, the communists set in motion a gigantic "land reform" program. More progressive landlords and "rich peasants" were liquidated. Millions of people were subjected, as in other communist countries, to "reeducation" and brainwashing." Those who resisted, were sent to build new railways and highways or flood control projects.

Communist propaganda, promises, and threats have already produced some interesting changes—at least on the surface. M. Guillain found himself "captivated by the new China—but before I left I found it suffocating." "One's first impressions are very striking," he writes. "Then, after a time, one discovers little by little the concealed exertions and dumb fears that have been the price of this progress." Trains seemed "incredibly clean" for China, and "squalid crowds in railway stations, crippled beggars, and thieving children were all gone." Professor Kirby found everybody wearing "austerity" prison-like dark blue garb. Despite clothing shortage and food rationing, the average living standards seemed slightly improved. The gay atmosphere of Peking and Shanghai was gone.

Remaking the Face of China

As in Russia, China's Five Year Programs—to run for the rest of this Century—involve far-reaching population shifts and the opening up of new areas. Prewar China's industrialization had been "skin-deep," limited largely to coastal cities. Now the communists are speeding up the process which was began during the Japanese occupation. They are moving all vital industries to the interior of the country, and also planning to locate most new ones, where they will not only be strategically safer, but also nearer to raw materials and petroleum and coal deposits.

But if the interior of China is to be industrialized, Red China will need new transportation lines. Russia started with the trans-Siberian already in operation.



Red China's Leading Cities

City	Population (1953)	No. of Manuft. Estab. (1947)	Description	Location
Shanghai	6,260,000	7,740	port, consumer goods	Yangtze Valley
Tien-ching (Tientsin)	2,760,000	1,210	port, consumer goods	North China
Pei-ching (Peking)	2,720,000	270	capital, misc. indust.	North China
Shen-yang (Mukden)	2,420,000		indust. equipment	Manchuria
Kuang-chan (Canton)	1,600,000	470	port, distribution	South China
Lü-ta (Port Arthur and Dairen)	1,200,000		port, distribution	North China
Harbin	1,200,000		heavy industry	Manchuria
Wu-han[a]	1,500,000	460[b]	consumer goods	Yangtze Valley
Chungking	1,600,000	660	railway equipment	Yangtze Valley
Fu-shun	700,000		coal mines	Manchuria
An-shan	600,000		steel works	Manchuria
Lanchow	1,000,000	40	distribution	Northwest China
Chengtu	700,000		consumer indust.	Near Yangtze Valley
Hsi-an (Siking)	700,000	70	distribution	Northwest China
Changchun	800,000		automobiles	Manchuria
Nanking	1,000,000		distribution	Yangtze Valley

[a]—Including Wu-chang, Hankow, and Han-yang. [b]—Hankow only.
Based on Yuan-li Wu: An Economic Survey of Communist China.

The Chinese communists are only now building their first "transcontinental" railway, which will run from the Yellow Sea to Sinkiang, joining with the Russian Central-Asian system at Aìma Ata. Almost one-third of the new section will be finished by the end of this year.

Another new line, already in operation, cuts across Outer Mongolia and shortens the rail distance between Moscow and Peiping by some 1000 miles. A third line, almost finished, is opening up the mountain-girded, agriculturally rich Szechuan; still another railway line will eventually provide a connection between the industrial cities of central Siberia and tropical North Vietnam.

The opening of new territories means more farm land. The communists are already moving thousands of farmers into the northwest and along the new railway lines. But China will have to produce a lot more food, not only to feed the rapidly growing numbers of factory workers, but also to pay for essential imports. As the Soviets used to export wheat despite famines at home, so the Chinese communists are now exporting rice despite famine conditions in the areas that suffered from floods last years. Millions of slave laborers are working on gigantic flood control and water conservation projects on the Hwai and Yangtze Rivers.

The First Five-Year Plan

With post-Civil War rehabilitation and unification accomplished, Red China launched her First Five-Year Plan in 1953. But the Plan soon bogged down, largely because of the strains of the war in Korea. The greater reasonableness of Premier Chou En-lai which led to the conclusion of the armistice was no doubt due to the desire to get on with the industrialization program. Since then, however, new difficulties have arisen, and the Plan has had to be revamped.

As it stands now, the Plan calls for the investment of the equivalent of roughly about $19 billion in capital construction and equipment during the 1953-57 period. This is about one-third of what the United States invests annually in new plant and construction. Altogether about 700 major industrial projects are being built, of which the Soviets sponsor about 160. These include steel plants, coal mines, power stations, and automobile, tractor and aircraft factories. In value, (*Please turn to page* 128)

Output of Selected and Agricultural Products in Red China

	Previous Peak Output	1949 Output	1952 Output	1954 Output	1955 Estimate	1957 Goal
Steel ingots (000,000 tons)	.9	.2	1.4	2.2	2.7	4.1
Pig iron (000,000 tons)	2.1	.2	1.9	3.0	3.7	5.0
Coal (000,000 tons)	65.0	31.5	63.5	82.0	94.0	113.0
Cement (000,000 tons)	2.2	.7	2.9	4.7	5.8	6.0
Paper (000,000 tons)	—	—	.37	.48	.53	.65
Electric power (billion kwh)	5.7	4.5	7.4	10.8	12.5	15.9
Cotton goods (million bolts)	54	37	112	153	—	164
Rice (000,000 tons)	53.0	38.0	68.4	70.5	78.5	81.8
Wheat (000,000 tons)	24.0	13.5	18.1	23.2	—	23.7
Cotton (000,000 tons)	—	—	1.30	1.09	1.32	1.64
Soybeans (000,000 tons)	10.0	6.0	9.5	9.2	—	11.2
Railway transport (billion t/k)	—	—	60.2	93.1	—	120.9
Collectivization (No. of households 100,000)	—	—	.3	2.5	16.9	35.0

No. 3

of our Special Studies of Major Industries

A Realistic Study of the

CHEMICALS

By RICHARD COLSTON

The chemical industry appears to be launched on a renewed period of dynamic growth which is calculated to produce another string of new high sales records and earnings for the leading companies in the industry this year. Although long-range prophesies are, of course, risky, there are good reasons for believing that the industry now has a period of four or five years ahead, which should show continued growth.

Certainly the expansion plans of the industry over a wide range of basic products indicate that leaders in the industry are betting many hundreds of millions invested in projected new plants and equipment that this will be the case.

It is an axiom in financial circles that the chemical industry is a "growth industry." However, the industry's reports of earnings during the several years ending with 1954 must have caused the layman to wonder a bit whether the financial experts knew what they were talking about during this period. Earnings of most of the leaders showed little notable gain during this period and several big firms actually showed a decline in net in 1954 from 1953. But a spurt to new high ground in profits last year marked the start of another upward swing.

Comparative Earnings and Dividend Records of Leading Chemical Companies

	Earnings Per Share 1953	Earnings Per Share 1954	Earnings Per Share 1955	Dividends Per Share 1953	Dividends Per Share 1954	Dividends Per Share 1955	Recent Price	Div. Yield†	Price Range 1955-1956
Air Reduction	$2.06	$1.86	$3.54	$1.40	$1.40	$1.50	42	3.5%	44¼ - 27⅝
Allied Chemical & Dye	5.10	4.73	5.44	3.00	3.00	3.00[1]	122	2.4	122¾ - 93
American Agricultural Chemical	6.45	7.27	7.01	4.50	4.50	4.50	75	6.0	79 - 70
American Cyanamid	3.15	2.95	4.07	2.00	2.00	2.50	72	3.4	73⅜ - 48
Atlas Powder	4.03	4.06	4.70	2.00	2.00	2.30	75	3.0	76½ - 47½
Columbian Carbon	3.22	2.83	3.91	2.00	2.00	2.30	54	4.2	54⅞ - 44¼
Commercial Solvents	1.01	1.01	1.31	1.00	1.00	1.00	21	4.7	21⅝ - 18⅜
Diamond Alkali	2.39	2.21	3.28	1.50	1.50	1.50[1]	50	3.0	52⅞ - 35¼
Dow Chemical	1.58	1.42	1.64	1.00[1]	1.00	1.00[1]	69	1.4	71½ - 43⅛
Du Pont	4.94	7.34	9.26	3.80	5.50	7.00	229	3.0	234⅜ - 157
Food Machinery & Chemical	3.67	3.82	4.53	2.00	2.00	2.00	65	3.0	65⅜ - 51
Freeport Sulphur	3.56	4.20	4.96	2.00	2.50	2.62½	96	2.7	98¾ - 68
Hercules Powder	4.19	5.10	6.89	3.00	3.00	3.30	143	2.3	143½ - 96
Heyden Chemical	.69	.20	1.00	.50	.50	.50	19	2.6	20½ - 15⅜
Hooker Electrochemical	.96	1.20	1.72	.66	.70	.95	43	2.2	44½ - 28⅜
International Minerals & Chem.	2.87	2.44	2.55	1.20	1.60	1.60	29	5.5	41½ - 28½
Jefferson Lake Sulphur	2.02	3.01	2.32	1.05	1.30	1.60	45	3.5	45½ - 26
Koppers Company	4.51	2.77	4.67	2.50	2.50	2.50	58	4.3	60 - 38¼
Monsanto Chemical	1.63	1.46	1.98	.83	.83	.92[1]	49	1.8	52⅝ - 31⅝
Nopco Chemical	1.88	2.66	3.05	1.35	1.40	1.75	38	4.5	42⅝ - 27⅝
Olin Mathieson Chemical	2.77	3.11	3.51	2.00	2.00[1]	2.00	59	3.3	64⅞ - 49⅜
Pennsylvania Salt Mfg.	2.50	2.73	2.80	1.70	1.85	1.85	58	3.2	59 - 44⅛
Pittsburgh Coke & Chemical	2.63	.71	2.34	1.25[1]	1.00	1.25[1]	24	5.2	30¼ - 21¼
Rohm & Haas	6.73	12.52	17.23	1.60[1]	1.60[1]	1.60[1]	454	.3	456¾ - 348
Spencer Chemical	4.01	4.20	4.04	2.20	2.40	2.40	65	3.6	77¼ - 59
Stauffer Chemical Co.	2.40	3.02	4.04	.32½	1.30	1.47½	65	2.2	67 - 36
Tennessee Corp.	2.29	3.66	4.20	1.00[1]	1.27½	1.80[1]	54	3.3	62⅛ - 41½
Texas Gulf Sulphur	1.16	1.43	1.72	1.66	1.83	2.00	38	5.2	44⅞ - 36⅜
Union Carbide & Carbon	3.55	3.10	4.83	2.50	2.50	3.00	121	2.4	122½ - 80⅜
United Carbon	3.26	3.90	4.66	1.67	1.67	1.85	69	2.6	71½ - 44½
Victor Chemical	1.76	2.02	2.16	1.15	1.30	1.45	34	4.2	37⅞ - 28⅝
Virginia-Carolina Chemical	5.12	4.26	2.28	—	—	—	35	—	50⅛ - 33¼

[1]—Plus stock.

Air Reduction: Sales and net last year reached new peaks as company was ready with facilities required to benefit from high-level business. (B)

Allied Chemical & Dye: Expanding at rapid rate, this topnotch company is outstanding in basic research. Competitive position strong. (A)

American Agricultural Chemical: Sustained expansion and improvement of existing plants and equipment reflected in consistent sales gains. (C)

American Cyanamid: Increasing emphasis on antibiotics and other drugs stemming from chemicals have found reflection in improved earnings. (B2)

Atlas Powder: Earnings upsurge aided considerably by vigorous product development. Recommended for dollar-averaging. (B2)

Columbian Carbon: Sales of natural gas and oil have soared to 25% of the whole for this producer of carbon black. Over-all volume at peak. (B2)

Commercial Solvents: Progress in development of new groups of chemicals and over-all expansion point to continued improvement of earnings. (C3)

Diamond Alkali: Diversification in petrochemicals bolstering competitive position. Addition of new facilities points to renewed growth. (B2)

Dow Chemical: Outstanding growth issue, its progress has been obscured by rapid amortization. Recommended for dollar-averaging .(A1)

Du Pont (E. I.): Giant of the chemical field, company pursues dynamic research program. It also benefits from big stake in General Motors. (A1)

Food Machinery & Chemical: Sales and profits last year exceeded any prior 12 months' fiscal period. Also, major advances were made that should contribute to progress in years ahead. (B2)

Freeport Sulphur: Company is highly diversified. Earnings in long-time uptrend. New benefits should be derived from venture with Pittsburgh Consolidation Coal into potash. (B2)

Hercules Powder: Capable management has spurred growth. Concerted development of new products has lessened dependence on powder. (A)

Heyden Chemical: Small producer of synthetic organic chemicals developing new products. Earnings in strong rebound last year. (C)

Hooker Electrochemical: Earnings upsurge reflects program of diversification with emphasis on profitable end products in plastics. (B)

International Minerals & Chemicals: Sales and earnings last year adversely influenced by protracted strike in Florida phosphate fields. Earnings for period ahead should be considerably better. (B1)

Jefferson Lake Sulphur. This producer of high-quality sulphur also has a large stake in petroleum. Owns 83.5% of the Merichem Company, which has completed plant expansion. (B)

Koppers Co.: Company combines chemicals and coke-oven construction as part of its highly-diversified operation. Recommended for dollar-averaging. (B2)

Monsanto Chemical: Evidence of aggressive development of wide line of high-profit-margin chemicals found in impressive earnings and rise of competitive position. (A)

Nopco: Beneficiary of strong trend toward greater utilization of chemical materials in industrial items. Recommended for dollar-averaging (B2)

Olin Mathieson: Wide diversity attained through consolidations promise significant progress in drugs, petrochemicals and agricultural items, as well as ammunition. (B1)

Pennsylvania Salt: Aggressive moves to broaden activities hold promise of added growth. Strong competitive position in salt products. (B)

Pittsburgh Coke & Chemical: Sharp rebound registered in 1955. Stepping up diversification. Building $3 million plant to double output of phthalic anhydride. (B)

Rohm & Haas: About 53% of the stock is closely held by this company whose outstanding research has developed wide line of specialty chemicals. (A)

Spencer Chemical: Large construction schedule completed on schedule and below estimate cost. Important benefits assured from new polyethylene plant in Texas. (B2)

Stauffer Chemical: Important gains being made by this producer of basic heavy chemicals. Dollar sales predominantly are in industrial chemicals. (B2)

Tennessee Corp.: Company making important progress despite handicaps in 1955 stemming from strikes and floods. (C3)

Texas Gulf Sulphur: Large reserves of raw materials place this major producer in strong competitive position. (A)

Union Carbide & Carbon: Highly-diversified chemical producer, has tremendous stake in plastics. Looms as important factor in nuclear energy. (A)

United Carbon: Record sales and earnings attained in 1955. An important factor in sales gain was revenue for synthetic rubber plant acquired from Government last July. (A)

Victor Chemical: Continued satisfactory demand for its products is anticipated by the company, which showed gains in 1955 despite lower prices on two important products amid increasing costs of wages and raw materials. (B)

Virginia-Carolina Chemical: Disposal of the former black leaf division and a strike at Florida phosphate mines accounted for substantial part of sales decline. Rest of drop caused by poor agricultural situation. (C)

RATING: A—High-grade Investment Quality. B—Good-grade. C—Speculative but improving. D—Unattractive.
1—Better-than-average market potentials. 2—For long-term growth. *—Most attractive of group at present prices.

Building For the Future

The reasons for the comparatively static situation of the industry over the years mentioned are not hard to find. These years were a period of incubation and of building for the future. High taxes, of course, penalized growth for a while. But during this period the industry carried on one of the most ambitious building programs in its history, with total investment in new facilities running around $1 billion or more yearly.

A substantial part of this new plant investment was made because of Government urging to provide facilities that would be needed in the event of another war, which at that time appeared more likely than it does at present. The plants therefor were built under Government "certificates of necessity" providing fast amortization over a five-year period compared to the usual 20-year depreciation period. These write-downs reached huge proportions. One outstanding example is that of Dow Chemical, which currently is charging off $75 million yearly in amortization and depreciation.

Cash In the Till

These huge write-downs were, of course, a heavy penalty on reported per-share earnings but they were written off before taxes, thereby providing large savings in taxes paid. And though they cannot be considered earnings, from a very real and practical view point they are cash income, money not paid in taxes that goes back into the till.

Naturally, chemical firms wanted to cooperate with the Government, but they also were happy to get enormous new plants under favorable circumstances, knowing that their future needs would provide business for the plants in the long run, even if they were temporarily a drag on earnings. Also, if one firm builds a new plant with fast amortization, its competitor could hardly allow this to happen without doing the same thing so as also to have a plant which would be written pretty well off the books in five years.

Another reason why the new plant programs detracted from earnings temporarily is that in a number of cases the new facilities could not be operated at full capacity until demand built up. Furthermore, often what is called the starting-up period takes a considerable time and costs a large amount of money. American Cyanamid Co., for example, has a major new petroleum chemical plant in Louisiana which, during the latter part of 1955, was a considerable drain on earnings, partly because depreciation charges were being written off, although the operation was making little money. This year the plant should be an important contributor to income.

The Big Turn in 1955

The big turn in chemical affairs came in 1955 when booming business enabled new plant facilities to run at full capacity. Newer plants had also been through their "shakedown" periods and were able to operate in the black. Earnings of most of the major firms showed notable gains onto a new plane which should hold and be augmented over the next few years, justifying again the concept that this is truly a growth industry.

There are, of course, individual exceptions to this rule and it can be most disappointing or even somewhat disastrous for an investor to buy into a situation just because it is a chemical stock. This is particularly true of some of the smaller concerns with a comparatively narrow field. The chemical business is primarily a "big money" business. Smaller firms can do well if they have a profitable specialty that does not run into competition from some of the major factors in the field. But the real strength of a chemical firm is in its diversification.

Comparative Statistics Comparing

Figures are in million dollars except where otherwise stated.	Air Reduction	Allied Chemical & Dye	American Cyanamid	Commercial Solvents
CAPITALIZATION:				
Long Term Debt (Stated Value)	$ 22.6	$200.0	$ 94.7	$ 25.0
Preferred Stocks (Stated Value)	$ 12.9	—	$ 48.4	—
No. of Common Shares Outstg. (000)	3,323	9,582	8,994	2,636
Total Capitalization	$ 79.0	$247.9	$233.1	$ 31.5
INCOME ACCOUNT:				
For Fiscal Year ended	12/31/55	12/31/55	12/31/55	12/31/55
Net Sales	$149.2	$628.5	$451.0	$ 56.6
Deprec., Depletion, Amort., etc.	$ 9.2	$ 45.9	$ 30.2	$ 3.3
Income Taxes	$ 12.2	$ 41.0	$ 36.0	$ 2.6
Interest Charges, etc.	$ .7	$ 7.2	$ 3.6	$ .9
Balance for Common	$ 10.6	$ 52.1	$ 36.5	$ 3.4
Operating Margin	15.9%	15.3%	13.5%	9.5%
Net Profit Margin	7.7%	8.2%	8.6%	6.1%
Percent Earned on Invested Capital	10.9%	12.6%	17.0%	8.1%
Earned Per Common Share*	$ 3.54	$ 5.44	$ 4.07	$ 1.31
BALANCE SHEET:				
Fiscal Year ended	12/31/55	12/31/55	12/31/55	12/31/55
Cash and Marketable Securities	$ 21.3	$107.5	$163.1	$ 10.3
Inventories, Net	$ 19.3	$ 81.3	$ 72.5	$ 12.9
Receivables, Net	$ 19.9	$ 56.5	$ 49.1	$ 9.6
Current Assets	$ 61.4	$245.3	$284.8	$ 32.9
Current Liabilities	$ 21.8	$ 79.7	$ 89.6	$ 7.2
Working Capital	$ 39.6	$165.6	$195.2	$ 25.7
Fixed Assets, Net	$ 86.4	$446.0	$203.8	$ 36.1
Total Assets	$150.8	$724.7	$515.4	$ 72.4
Cash Assets Per Share	$ 6.41	$ 11.22	$ 18.13	$ 3.92
Current Ratio (C. A. to C. L.)	2.8	3.1	3.2	4.5
Inventories as Percent of Sales	13.0%	12.9%	16.0%	22.8%
Inventories as % of Current Assets	31.4%	33.1%	25.4%	39.2%
Total Surplus	$ 49.6	$355.2	$189.4	$ 31.6

*Data on dividend, current prices of stock and yields in supplementary table on preceding page.

the *Position of Leading Chemical Companies*

Dow Chemical	Du Pont	Hooker Electro-chemical	International Minerals & Chemical	Monsanto Chemical	Olin Mathieson Chemical	Spencer Chemical	Stauffer Chemical	Texas Gulf Sulphur	Union Carbide & Carbon	Victor Chemical Works	Virginia-Carolina Chemical
$243.0	—	$26.4	$ 29.6	$154.4	$199.5	$25.0	$ 26.5	—	$ 410.0	$ 8.5	$ 8.5
—	$ 238.8	$ 5.0	$ 9.8	—	$ 22.0	$15.0	—	—	—	$ 7.9	$21.3
22,683	45,502	6,007	2,327	20,998	12,971	1,124	3,047	10,020	29,126	1,682	497
$356.4	$ 466.9	$61.5	$ 51.1	$196.4	$286.3	$46.7	$ 56.9	$ 26.1	$ 627.1	$24.9	$29.8
5/31/55	12/31/55	11/30/55	6/30/55	12/31/55	12/31/55	6/30/55	12/31/55	12/31/55	12/31/55	12/31/55	6/30/55
$470.7	$1,941.3	$94.1	$ 96.4	$522.3	$560.4	$36.1	$143.6	$ 93.6	$1,187.1	$48.3	$77.4
$ 73.4	$ 118.4	$ 6.0	$ 6.8	$ 35.0	$ 19.5	$ 3.4	$ 8.7	$ 3.3	$ 106.3	$ 3.4	$ 2.9
$ 35.9	$ 313.0	$10.8	$ 1.0	$ 79.0	$ 37.8	$ 5.2	$ 11.3	$ 17.5	$ 141.8	$ 3.7	$ 1.4
$ 8.5	—	$ .9	$ 1.0	$ 4.8	$ 6.3	$ .9	$ .9	—	$ 14.7	$ .2	$ .5
$37.1	$ 421.5	$10.3	$ 5.9	$ 42.1	$ 43.6	$ 4.5	$ 12.3	$ 32.3	$ 140.7	$ 3.9	$ 1.1
16.0%	30.3%	22.8%	8.4%	16.0%	15.3%	31.4%	15.6%	50.9%	23.3%	15.7%	5.5%
7.9%	22.2%	11.2%	6.5%	8.0%	7.9%	14.1%	8.5%	34.7%	11.8%	8.2%	3.1%
11.8%	21.8%	16.1%	7.7%	12.2%	12.9%	12.4%	15.4%	25.5%	19.2%	12.3%	5.1%
$ 1.64	$ 9.26	$ 1.72	$ 2.55	$ 1.98	$ 3.36	$ 4.04	$ 4.04	$ 3.23	$ 4.83	$ 2.16	$ 2.28
5/31/55	12/31/55	11/30/55	6/30/55	12/31/55	12/31/55	6/30/55	12/31/55	12/31/55	12/31/55	12/31/55	6/30/55
$127.5	$ 350.3	$ 8.7	$ 11.4	$ 47.4	$ 53.1	$22.3	$ 16.6	$ 42.4	$ 301.7	$11.2	$ 5.6
$ 76.2	$ 223.2	$13.9	$ 20.7	$ 81.3	$133.4	$ 3.2	$ 21.5	$ 15.7	$ 232.7	$ 7.4	$13.3
$ 64.2	$ 153.3	$10.6	$ 7.9	$ 56.6	$ 68.6	$ 2.3	$ 16.1	$ 19.7	$ 142.7	$ 5.0	$13.0
$268.0	$ 737.5	$34.0	$ 40.1	$185.4	$259.5	$27.9	$ 54.3	$ 77.9	$ 677.1	$24.0	$32.0
$118.7	$ 141.5	$ 6.8	$ 6.9	$ 50.3	$ 65.9	$ 7.5	$ 14.5	$ 20.0	$ 229.0	$ 7.3	$ 5.1
$149.3	$ 596.0	$27.2	$ 33.2	$135.1	$193.6	$20.4	$ 39.8	$ 57.9	$ 448.1	$16.7	$26.9
$392.8	$1,437.0	$63.3	$ 76.2	$327.7	$311.1	$45.3	$ 58.4	$ 28.8	$ 670.4	$21.8	$27.8
$679.0	$3,030.1	$98.7	$120.4	$562.5	$621.7	$74.6	$121.4	$122.1	$1,871.9	$48.4	$63.8
$ 5.62	$ 7.69	$ 1.45	$ 4.92	$ 2.21	$ 4.09	$19.86	$ 5.46	$ 4.24	$ 10.35	$ 6.34	$11.41
2.3	5.2	5.0	5.9	3.6	3.9	3.7	3.7	3.8	2.9	3.3	6.2
16.2%	11.5%	14.8%	21.5%	15.5%	23.8%	9.0%	15.0%	16.8%	19.9%	15.4%	17.3%
28.5%	30.2%	41.1%	51.6%	43.8%	51.4%	11.6%	39.9%	20.1%	34.3%	31.0%	41.7%
$202.8	$1,504.1	$30.3	$ 60.4	$344.7	$256.9	$19.8	$ 49.3	$ 72.9	$ 515.2	$15.8	$25.7

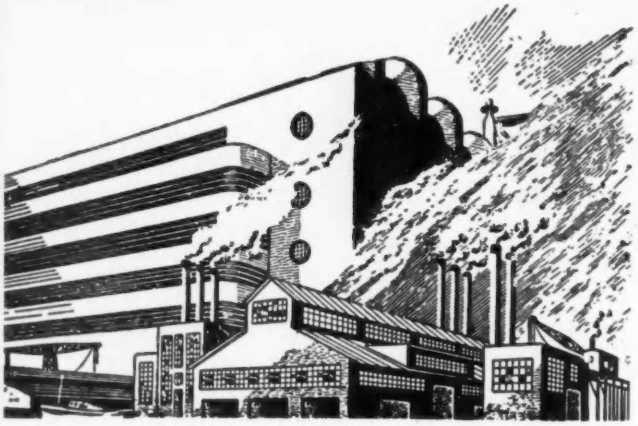
One point to be considered in the outlook for chemical firms over the next few years is that the huge program of plant building that put the brakes on profits in the past will act to augment earnings in the future. This is not only merely due to the obvious increase in sales that will be produced. It is because these new plants will be largely written off in the next year or so and then the sums now needed for amortization will flow back into earnings. Thus, even if general business does not hold at current high levels the chemical industry could still show a gain in profits.

The Big And the Small

To take extreme examples on the big side, such as Du Pont, Union Carbide & Carbon Corp. or Allied Chemical & Dye Corp., it would be difficult for a decline in business or prices for one product to hurt earnings severely. But smaller firms with a more narrow base can be and often are badly hurt.

There was one example some time ago in the field of phosphates used for detergents. According to trade reports, the big soap-makers became somewhat annoyed at Monsanto Chemical Co. for going into the detergent field with "All" for washing machines. They quietly turned their phosphate business over to some of the smaller firms in competition with Monsanto. Monsanto retaliated by slashing prices. This did not hurt Monsanto perceptibly but was unpleasant for the smaller firms.

Another current situation that should be watched carefully is ammonia used primarily for fertilizers. There has been a fantastic increase in the production of ammonia in the past 10 years to over 4 million tons annual capacity from 726,000 tons annual capacity. K. A. Spencer, president of Spencer Chemical, in a recent talk warned against the dangers in this situation. If it should later on lead to price-cutting, some of the smaller producers who are not diversified might be hurt. Allied Chemical, the biggest producer on the other hand would be affected, but it is probable that gains in other products would offset the adverse effects to a great extent. Trade situations of this sort are difficult for individual investors to follow so the rule of thumb should be to go carefully when buying into the less diversified firms. (*Please turn to page* 116)



3 Diverse Stocks for Dollar Averaging

By OUR STAFF

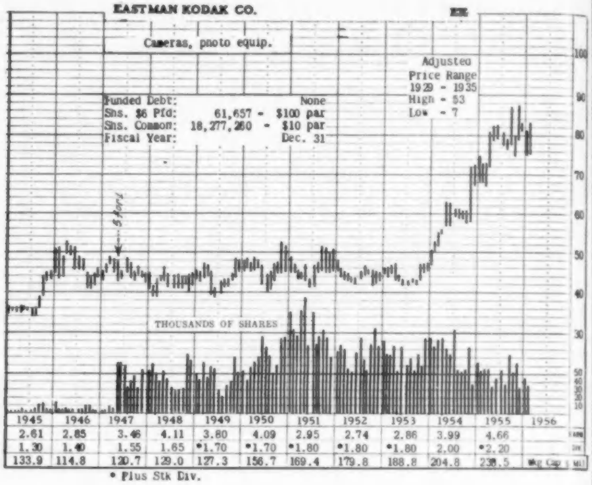
Dollar-averaging is an uncomplicated system of investment. It calls, in methodical fashion, for the accumulation of shares of an individual equity or several issues, according to the amount of available funds, at predetermined regular intervals over a period of years. Commitments are made at prevailing price levels at the time each purchase is made.

In order to obtain the best results from the system of dollar-averaging, the same amount of money should be invested in each period. Of course, the number of shares obtainable will vary with the price movement of the stock (either up or down) since the time of the latest purchase.

The advantage which the investor possesses through this method is that he is freed from the necessity of trying to "guess" favorable buying points and it is, therefore, likely that the average price of the accumulated shares through regular periodic purchases over the years will be lower than that paid by sporadic purchases at irregular intervals.

To gain the advantage of a favorable average price, in fact, is the essence of the dollar-averaging plan, as attaining this result, in the long run, will mark the success of such an investment policy.

We have cited in connection with the dollar-averaging proposal three companies which lend themselves admirably to such a system. It will be noted that the trio—Illinois Central Railroad, Eastman Kodak Co. and National Lead Co.—is highly diverse. Each or all, however, are commended to the investor interested in the dollar-averaging system of building a portfolio of quality issues.



* Plus Stk Div.

EASTMAN KODAK CO.

BUSINESS: Eastman Kodak has been the leader of the camera and allied-equipment field since the 1890's, when it began mass-producing box cameras. It now towers over this burgeoning industry, supplying about 40% of the domestic market. Far-sighted management and aggressive research have carried the company into the chemical, textile and office-equipment fields.

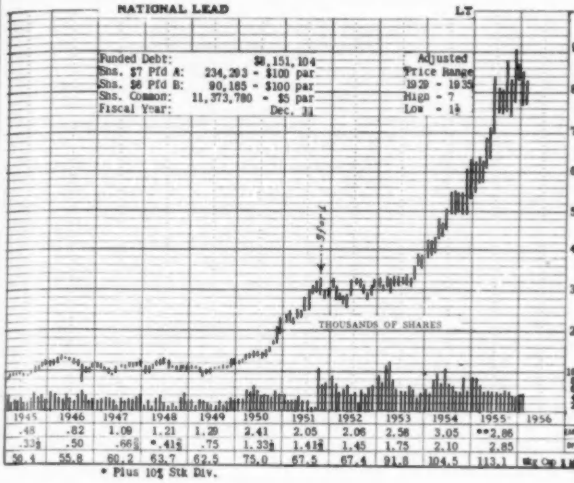
OUTLOOK: Stockholders, at the annual meeting on April 24, will be asked to give the company authority to issue up to 20 million additional shares of common stock. Present authorization is 20 million shares, of which 18,277,260 are issued and outstanding. In addition, there are 61,657 shares of $6 preferred, $100 par. In connection with the request for approval of additional common, the company says it has no undertakings, agreements or present intentions of issuing, selling or distributing the additional 20 million common shares. Authorized shares, however, would permit the company to take prompt advantage of market or other conditions in connection with financing or for stock dividends or other corporate purposes. Earnings and sales for 1955 were highest in its history. Sales of most of its products were above 1954 by good margins. On a 13% rise in sales, net soared to $85.6 million, or $4.66 a common share, from $69.8 million, or $3.99 a share, in 1954.

DIVIDENDS: Paid stock dividends of 5% each in March of 1955 and May, 1953. It also paid stock dividends of 10% each in 1951 and 1952. A stock dividend of 5% was paid in 1950. Cash dividends have been moving higher, too, despite increased number of shares arising out of stock disbursements. Quarterly dividend was boosted to 60 cents from 50 cents this year. An extra of 25 cents also was paid in January.

MARKET ACTION: Recent price of 88 compares with a 1955-56 range of High—88¾, Low—67. At current price cash yield is 3%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1946	1955	
ASSETS	(000 omitted		Change
Cash & Marketable Securities	$ 78,925	$145,959	+$ 67,034
Receivables, Net	31,915	74,706	+ 42,791
Inventories	78,774	127,981	+ 49,207
Prepayments	....	3,730	+ 3,730
TOTAL CURRENT ASSETS	189,614	352,376	+ 162,762
Net Property	117,400	249,131	+ 131,731
Invest. & Advances	9,365	5,306	— 4,059
Other Assets	739	2,921	+ 2,182
TOTAL ASSETS	$317,118	$609,734	+$292,616
LIABILITIES			
Accounts Pay. & Accruals	$ 29,124	$ 82,756	+$ 53,632
Accrued Taxes (after Res.)	39,331	15,465	— 23,866
Dividends Payable	6,283	15,628	+ 9,345
TOTAL CURRENT LIABILITIES	74,738	113,849	+ 39,111
Reserves	17,188	....	— 17,188
Preferred Stock	6,166	6,166	....
Common Stock	123,800	182,773	+ 58,973
Surplus	95,226	306,946	+ 211,720
TOTAL LIABILITIES	$317,118	$609,734	+$292,616
WORKING CAPITAL	$114,876	$238,527	+$123,651
CURRENT RATIO	2.5	3.1	+ .6



* Plus 10% Stk Div.

* Plus Stk Div.

NATIONAL LEAD CO.

BUSINESS: National Lead is the leading manufacturer of paint and pigments, including titanium dioxide; paints, lead products and Baroid (oil drilling mud). Through its subsidiary, Titanium Metals Corp. of America (jointly owned with Allegheny Ludlum Steel Corp.), company is a pioneer in titanium metal. Acquisition of Doehler-Jarvis Corp. in 1953 has made it an important factor in die-casting of non-ferrous metals.

OUTLOOK: Business should continue at a high level for this company, which set new peaks in 1955 for earnings and sales. Net approached $47.9 million, or $4.02 a share on 11,375,630 shares of common stock. This was a rise of $11,271,000, or 31%, from 1954 profit, which was equal to $3.05 a share on the 11,302,780 common shares then outstanding. Sales reached a total of $533,728,730, or 27% above the level of the preceding year. While pursuing a sound and conservative financial policy, alert management has given an important role to research and development. Its laboratories have, since the turn of the century, been turning out new products and processes which enabled the company to grow, diversify and prosper. It has swiftly attained an important position in the field of atomic energy through operation of an A. E. C. raw-materials development laboratory and a plant for the production of uranium metal. In titanium metal, it has a "broad horizon" ore destined to have a major role in commercial markets on attainment of low production costs.

DIVIDENDS: Company has made some payment in each year over the the past half century. Disbursements have been stepped up the past several years, with $1.75 paid to common shareholders in 1953, $2.10 in 1954 and $2.85 last year. Stockholders received 75 cents in the first quarter of this year, as against 50 cents in the initial period last year.

MARKET ACTION: Recent price of 94 compares with a 1955-56 range of High—94¼, Low—54¼. At current price the yield is 3.2% (based on a $3 annual payout, a highly conservative estimate).

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1946	1955	
ASSETS	(000 omitted)		Change
Cash & Marketable Securities	$ 30,074	$ 68,209	+$ 38,135
Receivables, Net	15,574	50,980	+ 35,406
Inventories	32,617	77,570	+ 44,953
TOTAL CURRENT ASSETS	78,265	196,759	+ 118,494
Net Property	30,082	102,138	+ 72,056
Intangibles	20,981	20,692	— 289
Investments & Adv.	15,149	13,460	— 1,689
Other Assets	666	3,363	+ 2,697
TOTAL ASSETS	$145,143	$336,412	+$191,269
LIABILITIES			
Acct's. Pay. & Accruals	$ 9,508	$ 29,312	+$ 19,804
Tax Reserves	12,382	53,662	+ 41,280
Other Current Liabilities	520	625	+ 105
TOTAL CURRENT ASSETS	22,410	83,599	+ 61,189
Reserves	23,549	20,856	— 2,693
Long Term Debt	......	8,302	+ 8,302
Preferred Stock	34,605	34,695	+ 090
Common Stock	30,983	56,902	+ 25,919
Surplus	33,596	132,058	+ 98,462
TOTAL LIABILITIES	$145,143	$336,412	+$191,269
WORKING CAPITAL	$ 55,855	$113,160	+$ 57,305
CURRENT RATIO	3.4	2.3	— 1.1

ILLINOIS CENTRAL RAILROAD CO.

AREA SERVED: The Illinois Central system serves the fast-growing heart of America from Omaha, across Iowa to Chicago and southward to the Gulf. Its lines serve important agricultural and bituminous coal-mining areas, and traverse a territory that has been rapidly expanding in industrial activity as new petroleum, pulp and paper, lumber, chemical and other diversified manufactures have set up along its routes.

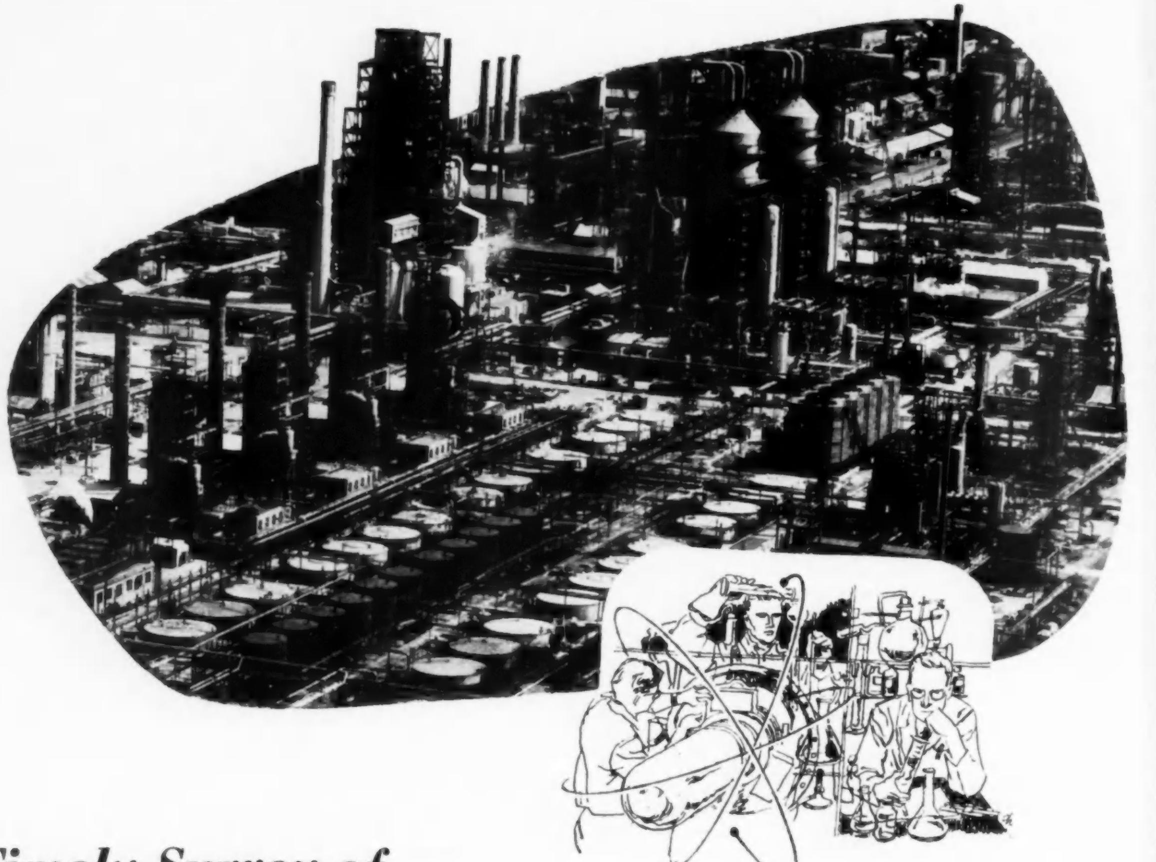
OUTLOOK: Road has met the challenge of constantly increasing wages and materials costs by use of modern equipment, mechanization and more effective operating techniques. Improvements include addition of 70 general-purpose diesels last year, with another 70 being added early this year; improvement of some freight schedules; inauguration of "piggy-back" trailer-on-flat-car service between Chicago and Memphis. Operating ratio declined last year to 72.42 from 75.75 a year earlier. Net rose to $26,542,000, or $8.61 a common share. Net for 1955 was second highest in the road's history, while revenues were 7% greater than in 1954 and 10% better than the average for the past decade. The road not only is benefiting from the higher level of general business activity, but from the setting up of scores of new industries—76 in 1955. The retirement of the preferred stock, made possible by the improvement in the fortunes of the railroad, has further simplified the financial structure, so that Illinois Central now rests on the best financial foundation in its history.

DIVIDENDS: Since resumption of payments in 1950, the dividend record has been outstanding. The best measure of accomplishment would appear to be the resumption of the historic dividend rate paid on the old common shares for many years before the depression of the 1930's. Current annual rate of $3.50 (87½ cents quarterly) is equivalent of the $7 per share disbursed for so long on the old shares, split, 2-for-1, in 1954.

MARKET ACTION: Recent price of 69 compares with a 1955-56 range of High—69⅝, Low—57⅛. At current price the yield is a trifle over 5%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1946	1955	
ASSETS	(000 omitted)		Change
Cash & Marketable Securities	$ 67,368	$ 75,578	+$ 8,210
Receivables, Net	14,018	19,170	+ 5,152
Materials & Supplies	19,694	18,326	— 1,368
Other Current Assets	173	100	— 073
TOTAL CURRENT ASSETS	101,253	113,174	+ 11,921
Road & Equipment	660,257	770,406	+ 110,149
Acquisition Adjustment	CR 7,457	CR 1,310	— 6,147
Donations & Grants	CR 2,752	CR 1,674	— 1,078
Depreciation & Amort.	CR173,982	CR232,609	+ 58,627
Investments & Funds	15,727	26,489	+ 10,762
Other Assets	9,342	13,711	+ 4,369
TOTAL ASSETS	$602,388	$688,187	+$ 85,799
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 59,586	$ 59,947	+$ 361
Other Liabilities	2,464	3,006	+ 542
Unadjusted Credits	21,731	20,166	— 1,565
Long Term Debt	241,874	193,136	— 48,738
Preferred Stock	18,646	......	— 18,646
Common Stock	135,938	154,287	+ 18,349
Surplus	122,149	257,645	+ 135,496
TOTAL LIABILITIES	$602,388	$688,187	+$ 85,799
WORKING CAPITAL	$ 41,667	$ 53,227	+$ 11,560
CURRENT RATIO	1.7	1.8	+ .1



Timely Survey of

STRATEGIC OIL INDUSTRY

By H. F. TRAVIS

The petroleum industry, although subject to short-term variables such as weather and general business conditions, continues to enlarge its long-term prospects for further growth.

Having completed 1955 which was marked by continued forward progress, with production and sales at all-time peaks, the industry entered the current year under highly propitious conditions. So far in 1956 demand has moved up by 4.3 per cent from the level of a year ago and there is every indication that this uptrend in consumption should continue through the first half, and carry through the final six months, provided business and industrial activity in that period is maintained at a fairly high level. Last year, domestic crude oil satisfied about 77 per cent of over-all domestic requirements with natural gas liquids furnishing 8.3 per cent, the balance being filled by imports of approximately 14.2 per cent. A similar relationship in the current year would mean a daily demand of about 7,150,000 barrels, a gain over 1955 of 350,000 barrels a day which would be a sizable increase. Looking further ahead, leaders of the industry foresee a steady uptrend in free-world petroleum consumption as high as 24 million barrels daily within the next decade.

Importance of Middle East Oil Fields

Considering such an outlook, the necessity for increasing the free-world's oil reserves is obvious. Thus, the gnawing anxiety of the Western nations over the deteriorating situation in the Middle East in which are located the richest oil reserves vital to the free world, and Europe especially. Recognition of this fact has caused England's Prime Minister Eden to say flatly that his country must hold the island of Cyprus in the eastern Mediterranean as a base which is utterly essential for the protection of Britain's Mideast oil interests. It is the same oil that has led the covetous Russians to woo the Arab lands with diplomatic favors, weapons of war and commercial trade. Without this supply of petroleum, the Soviets would be handicapped in waging an all-out global war. In fact, their inability to have recourse to these Mideast oil sources would unques-

Comparative Earnings and Dividend Records of Leading Oil Companies

	Earnings Per Share 1953	Earnings Per Share 1954	Earnings Per Share 1955	Dividends Per Share 1953	Dividends Per Share 1954	Dividends Per Share 1955	Recent Price	Div. Yield	Price Range 1955-1956
Amerada Petroleum	$2.93	$3.14	$3.90[7]	$1.50	$1.50	1.75	120	1.4%	121½-82
Anderson-Prichard Oil	5.46	4.00	6.07	1.00	1.60	2.00	68	2.9	70 -44¼
Atlantic Refining	5.41	4.47	4.25	2.00	2.00	2.00	41	4.8	42½-34¼
Cities Service	5.22	4.41	4.75	2.00	2.00	2.10[1]	67	3.1	68⅝-45⅛
Continental Oil	4.20	4.28	4.75	2.60	2.60	2.85	119	2.4	120 -70
Creole Petroleum	2.95	3.09	3.90[7]	2.33	2.50	3.55	88	4.0	88 -40⅛
Gulf Oil	7.13	7.16	8.19	2.00[1]	2.00[1]	2.25[1]	100	2.2	101¾-61½
Humble Oil	4.58	4.08	4.88	2.28	2.28	2.31	124	1.8	128¼-84⅞
Imperial Oil, Ltd.	1.61	1.66	2.08[7]	.80	.90	.95	47	2.0	47¾-36
Ohio Oil	3.32	2.91	3.14	1.62½	1.50	1.55	43	3.6	43¾-30½
Phillips Petroleum	5.25	5.20	5.55	2.60	2.60	3.00	95	3.1	96¼-69½
Plymouth Oil	3.32	2.78	2.83	1.60[1]	1.60[1]	1.60[1]	36	4.4	37½-29⅞
Pure Oil	3.06	3.56	4.05	1.25	1.50	1.51	48	3.1	49⅛-32
Richfield Oil	7.22	6.39	7.75[7]	3.50	3.50	3.50	80	4.3	82 -64½
Seaboard Oil	1.79	2.04	2.05[7]	.83	.90	1.00	67	1.5	67½-43½
Shell Oil	4.20	4.41	4.56	1.50[1]	1.87½	2.00	80	2.5	81 -54
Sinclair Oil	5.53	6.04	5.68	2.60	2.60	2.70	64	4.2	64½-48½
Skelly Oil	5.44	5.13	5.61	1.62½	1.70	1.80	69	2.6	69½-46¼
Socony-Mobil Oil	5.35	5.25	5.90	2.25	2.25	2.50	72	3.4	73⅞-49⅞
Standard Oil of Calif.	6.61	7.04	7.31	3.00	3.00[1]	3.00[1]	103	2.9	104 -73¼
Standard Oil of Indiana	4.06	3.61	4.75	1.25[4]	1.25[3]	1.40[2]	61	2.3	61¼-42¾
Standard Oil of N. J.	3.20	2.98	3.65[5]	1.50	1.51	1.75[5]	59	2.9	60⅛-35½
Standard Oil of Ohio	5.08	4.41	5.53	2.40	2.40	2.49	63	3.9	66 -42
Sun Oil	4.68	4.17	4.72	.80[1]	1.00[1]	1.00[1]	78	1.2	80¾-67¼
Sunray Mid-Continent Oil	2.54	2.01	2.28	1.20	1.20	1.20	26	4.6	26⅞-21¾
Texas Company	7.01	8.24	9.57	3.40	3.75	4.25	131	3.2	133 -83½
Texas Gulf Producing	1.16	1.43	1.72	.51[1]	.51	.71	43	1.6	45¼-25
Texas Pacific Coal & Oil	2.15	2.22	2.22	.82	.82	.90	40	2.2	41¾-23⅝
Tide Water Associated Oil	2.89	3.13	3.03	1.15	.25[1]	[6]	45	—	47¾-24
Union Oil	5.82	4.78	4.13	2.00[1]	2.20	2.40	61	3.9	61⅞-41⅜

1—Plus stock.
2—Plus 1/150 share S. O. N. J.
3—Plus 1/60 share S. O. N. J.
4—Plus 1/50 share S. O. N. J.
5—Adjusted for 3 for 1 stock split.
6—Paid 5% in stock
7—Estimated.

Amerada: Company has substantial reserves of crude and an outstanding record of finding new oil sources. Splendid growth prospects. (A)

Anderson-Prichard: Earnings up on increases in daily crude oil runs and refinery prices and runs. Gas production also advanced. (B)

Atlantic Refining: 1955 was transitional year, due to decision to dispose of Eastern Hemisphere marketing subsidiaries. Profits from sale being invested to improve Western Hemisphere position. (B)

Cities Service: Company in 1955 set new records in all divisions of its operations. Major emphasis being placed on increased oil and gas output, additions to underground reserves and expansion into petrochemicals. (B)

Continental Oil: Improvement in income due to greater increase in gross than in cost of doing business. Capital expenditures running at better than $100 million annually. (A)

Creole Petroleum: Controlled by Standard of Jersey, this company goes on compiling stunning record of output, revenues and earnings. (A)

Gulf Oil: This topnotch integrated company has tremendous interests in Persian Gulf area. Aggressive research and outstanding management have given it a large measure of diversity. (A)

Humble Oil: This leading domestic crude producer is controlled by Standard of Jersey. Recommended for dollar-averaging. (A)

Imperial Oil, Ltd.: Also linked to Standard of Jersey, this is the largest integrated of the Canadian companies. (A)

Ohio Oil: Earnings in rebound for this aggressive company which produces, transports, refines and markets wide variety of petroleum products. (B2)

Phillips Petroleum: Net for 1955 set record and topped 1954 showing by 25%. Developing huge stake in petroleum-based chemicals. (A)

Plymouth Oil: Intensifying efforts to secure new sources of crude and natural gas. Search for new reserves continue to be progressively more costly. (C)

Pure Oil: Net continues long-time climb, up 12.8% in 1955 from year earlier. Preferred retired and common split last year. (B3)

Richfield Oil: Earnings in rebound for this West Coast company, which is owned about one-third each by Cities Service and Sinclair. (B)

Seaboard Oil: Texas Co has important stake in this company, which has bright prospects in the Pembina field of Canada. (B)

Shell Oil: Earnings and dividends in ascendant for this large integrated producer. Chemical sales continue to grow in importance to company. (A)

Sinclair: Coping with such adverse factors as increased costs, largely uncompensated by increased prices in refined products. (B)

Skelly Oil: Has increased crude oil production through intensive and successful drilling program, mainly in Colorado, Oklahoma and Texas. (B)

Socony Mobil: Company making important strides in every vital phase of the business. Will spend record sums for capital account this year to accelerate development. (A)

Standard Oil (California): Crude production, refinery runs and product sales last year were at highest levels in its history. Gains in Western Hemisphere more than offset decline abroad. (A)

Standard Oil (Indiana): 1955 net was highest in its history, showing a 34% gain from 1954. Good progress being made in expansion and in streamlining of operations. (A)

Standard Oil (New Jersey): Stock split, forecast here last year, has eventuated. This is world's largest petroleum company, which has been known to top every company extant in earning. (A)

Standard Oil (Ohio): 1955 sales of Sohio products reached record levels and toward end of year sales and operating revenues were topping million dollars daily. New premium motor fuel has great promise. (B3)

Sun Oil: Excellent growth stock, it pays cash and stock, too. (A)

Sunray Mid-Continent: Income higher for this outgrowth of the merger of Sunray Oil with Mid-Continent Petroleum. (C3)

Texas Co.: This is one of the world's largest corporate entities. Reserve position is tremendous, although part of this is in sensitive Middle East. (A)

Texas Gulf Producing: Earnings uptrend continues for this company, which split stock 3-for-1 last year. Factor in natural gas. (B)

Texas Pacific Coal & Oil: Small crude producer with relatively large reserves. Cash position strong. Often linked to merger talks. (B)

Tide Water Associated: No cash dividends were paid in 1955, although 5% in stock was distributed. Capital expenditures soaring this year to $195 million from the previous peak of $130 million in 1955. (C)

Union Oil: This second largest integrated company on West Coast should show improvement. Has big stake in swiftly-growing region. (B3)

RATINGS: (A)—High-grade investment quality. (B)—Good Grade. (C)—Speculative (D)—Unattractive.
1—Above average appreciation potential at current market levels. 2—Retain for long-term investment. 3—Speculative, but improving.
*—Most attractive of group at current market price.

tionably be a deterrent to their launching an attack upon the United States.

Aside from the military value of this oil supply to the free nations of Europe and to this country as well, the United States consumer has a stake of major proportions in foreign sources of crude oil. This is besides the direct and substantial interest of American oil companies in these resources. The continuous rise in domestic needs for petroleum has changed the United States from a petroleum exporting to an importing nation. For example, imports for 1955, made up almost entirely of crude and heavy fuel oils, averaged close to 1.2 million barrels daily. This was about 200,000 barrels daily over the 1954 average and represented an increase of approximately 18 per cent.

Imports Stir Debate

Many segments of the domestic petroleum industry are protesting the steadily rising volume of crude imports, and justly so it appears in view of the fact that most, if not all domestic companies are still producing at much less than their maximum efficient rates because of state proration. While the majority in the industry are not in favor of legislation restricting imports, the census of opinion is there should be more self-restraint as to total volume brought into this country and its distribution among refiners. To this end, a number of independent crude producers succeeded last year in getting an amendment to the International Trade Agreements Act, providing some restrictions on imports should they exceed significantly the ratio to domestic production established in 1954. This amendment appears to be a gain for those asking for "restraints" but the answer to what is "significant" does not seem to be readily at hand.

Profit Margins in Oils

The oil industry is highly competitive, marked by strenuous battles for markets among foreign companies and those firms that are purely domestic producers as well as the titans which have access to the production of both hemispheres. All of the companies in the business—big and small, domestic and international producers—have common problems. Thus, all are conscious of rising costs of production and exploration.

Domestic producers are especially unhappy about the price structure, which they feel could be more satisfactory were it not for the pressure of low-priced foreign oil.

For all that, the oil industry, by and large, enjoys an excellent net profit margin. The 6.7% margin of Standard Oil Co. (Ohio) would be highly creditable in almost any other industry, but there are quite a few companies in the petroleum business that top it by 100% and more. Thus, the net profit margin last year for Ohio Oil Co. was 16%, for Skelly Oil it was 13.9% and for Texas Co. it was 14.8%.

This general well-being of the industry also is important to the national economy, which doubtless will require increasingly large quantities of petroleum products with the passing years. To cope with the demand for substantially increased supplies of oil, vital changes in the pattern of supply and to provide the facilities for the assured expansion entail tremendous sums.

Estimated capital required to support this expansion in supply and demand for the decade ahead will amount to $73.5 billion for this country and $41.5 billion for the balance of the free world, according to leading petroleum industry authorities. Most of this money will have to be generated internally from the operations of the industry, since the

Comparative Statistics Comparing

Figures are in million dollars except where otherwise stated.	Atlantic Refining	Cities Service	Continental Oil	Gulf Oil	Ohio Oil
CAPITALIZATION:					
Long Term Debt (Stated Value)	$ 83.4	$ 390.6	$107.5	$ 175.4	—
Preferred Stock (Stated Value)	$ 35.2	—	—	—	—
No. of Common Shares Outst. (000)	8,965	10,110	9,756	26,628	13,126
Total Capitalization	$208.2	$ 491.7	$156.3	$ 841.1	$ 98.7
INCOME ACCOUNT:					
Fiscal Year ended	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55
Net Sales	$513.0	$ 923.2	$528.9	$1,895.6	$257.1
Depletion, Amortization, etc.	$ 42.1	—	$ 2.6	—	$ 21.6[1]
Depreciation, Retirements, etc.	—	$ 69.0[1]	$ 23.4	$ 162.6[1]	—
Intangibles, Devel. Costs, Losses on Leases, Drilling Costs, etc.	—	—	$ 48.8	—	$ 21.9[2]
Total Income Taxes	$ 3.7	$ 25.6	$ 9.9	$ 107.6	$ 11.9
Interest Charges	$ 2.7	$ 13.2	$ 3.3	$ 4.8	—
Balance for Common	$ 38.0	$ 49.3	$ 46.3	$ 218.0	$ 41.2
Operating Margin	6.7%	9.1%	10.3%	16.5%	19.5%
Net Profit Margin	7.6%	5.3%	8.7%	11.5%	16.0%
Percent Earned on Invested Capital	9.0%	9.0%	14.0%	14.2%	13.0%
Earned Per Common Share*	$ 4.25	$ 4.88	$ 4.75	$ 8.19	$ 3.14
BALANCE SHEET:					
Fiscal Year ended	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55
Cash and Marketable Securities	$ 28.5	$ 206.3	$ 55.2	$ 390.3	$ 53.7
Inventories, Net	$ 58.2	$ 101.4	$ 43.5	$ 148.0	$ 26.3
Receivables, Net	$ 58.1	$ 79.0	$ 57.8	$ 187.2	$ 29.0
Current Assets	$145.0	$ 419.5	$168.8	$ 817.8	$109.0
Current Liabilities	$ 51.5	$ 112.7	$ 62.8	$ 378.3	$ 32.1
Working Capital	$ 93.5	$ 306.8	$106.0	$ 439.5	$ 76.9
Fixed Assets, Net	$413.1	$ 636.6	$290.3	$1,147.9	$219.7
Total Assets	$611.5	$1,094.7	$503.9	$2,160.8	$347.4
Cash Assets Per Share	$ 3.18	$ 20.41	$ 5.66	$ 14.65	$ 4.08
Current Ratio (C. A. to C. L.)	2.8	3.7	2.7	2.1	3.3
Inventories as Percent of Sales	11.3%	10.9%	8.2%	7.8%	10.2%
Inventories as % of Current Assets	40.1%	24.1%	25.8%	18.1%	24.1%
Total Surplus	$313.6	$ 442.5	$280.4	$ 862.7	$216.5

(*)—Data on dividend, current price of stock and yields in supplementary table on preceding page.

paring *the Position of Leading Oil Companies*

Ohio Oil	Phillips Petroleum	Pure Oil	Shell Oil	Skelly Oil	Socony Mobil Oil	Standard Oil of Indiana	Standard Oil of Ohio	Sun Oil	Sunray Mid-Cont. Oil	Texas Company	Tide Water Associated Oil	Union Oil
—	$ 118.9	$ 73.3	$ 201.4	$ 8.7	$ 181.0	$ 391.2	$ 31.0	$ 9.8	$ 60.3	$ 208.9	$ 50.0	$135.7
—	—	—	—	—	—	—	$ 22.1	—	$ 75.1	—	$ 62.3	—
3,126	17,142	8,549	27,533	5,746	34,982	33,057	4,011	10,236	16,442	27,448	11,484	7,331
98.7	$ 574.7	$121.7	$ 407.9	$152.3	$ 709.1	$1,217.6	$ 93.0	$372.5	$151.9	$ 899.5	$227.2	$319.0
1/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55
257.1	$ 910.7	$485.1	$1,484.0	$231.6	$1,720.9	$1,781.3	$339.7	$660.2	$298.3	$1,767.2	$478.7	$359.5
21.6	$ 11.5	—	$ 22.2	—	$ 83.2[2]	$ 51.5	$ 12.8	—	$ 15.0	$ 13.9	—	—
—	$ 59.7	$ 27.0[1]	$ 91.1	$ 28.8[1]	$ 82.1	$ 87.6	$ 7.2	$ 41.9[1]	$ 12.7	$ 96.6	$ 28.6[1]	$ 39.9[1]
21.9	$ 21.1	—	$ 75.6	—	—	—	$ 12.5	$ 33.8	$ 13.0	$ 97.1	$ 10.0	$ 19.9
11.9	$ 41.0	$ 12.7	$ 68.0	$ 10.0	$ 42.9	$ 43.2	$ 15.7	$ 14.7	$ 17.7	$ 68.3	$ 2.5	$ 1.9
—	$ 8.0	$ 2.3	$ 5.4	$ .2	$ 5.7	$ 11.9	$ 1.0	$ .7	$ 2.1	$ 6.6	$ .3	$ 3.8
41.2	$ 95.2	$ 34.6	$ 125.5	$ 32.2	$ 207.4	$ 157.1	$ 22.1	$ 48.3	$ 37.3	$ 262.7	$ 34.7	$ 30.2
19.5%	15.5%	9.6%	12.0%	17.5%	8.0%	10.1%	10.3%	9.1%	17.8%	12.3%	7.9%	9.8%
16.0%	10.5%	7.2%	8.4%	13.9%	12.0%	8.8%	6.7%	7.3%	13.2%	14.8%	7.8%	8.4%
13.0%	10.5%	11.6%	15.4%	11.7%	11.2%	9.2%	9.8%	10.8%	10.6%	16.0%	9.9%	8.6%
3.14	$ 5.55	$ 4.05	$ 4.56	$ 5.61	$ 5.93	$ 4.75	$ 5.53	$ 4.72	$ 2.28	$ 9.57	$ 3.03	$ 4.12
1/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55	12/31/55
53.7	$ 73.0	$ 35.1	$ 96.0	$ 31.5	$ 229.4	$ 280.8	$ 40.7	$ 30.6[3]	$ 68.9	$ 265.3	$ 37.9	$ 41.8
26.3	$ 85.7	$ 49.2	$ 135.6	$ 16.0	$ 244.7	$ 192.9	$ 33.6	$ 49.2	$ 36.1	$ 233.3	$ 35.5	$ 34.9
29.0	$ 101.9	$ 45.8	$ 144.2	$ 23.2	$ 224.7	$ 185.4	$ 39.6	$ 43.8	$ 21.8	$ 193.6	$ 41.1	$ 62.7
09.0	$ 285.2	$145.4	$ 421.9	$ 80.4	$ 750.4	$ 706.2	$121.5	$147.1[3]	$135.2	$ 729.9	$146.6	$139.6
32.1	$ 146.4	$ 49.4	$ 190.6	$ 30.5	$ 276.0	$ 227.5	$ 58.0	$ 69.0[3]	$ 51.0	$ 191.3	$ 56.6	$ 51.3
76.9	$ 138.8	$ 96.0	$ 231.3	$ 49.9	$ 474.4	$ 478.7	$ 63.5	$ 78.1	$ 84.2	$ 538.6	$ 90.0	$ 88.3
19.7	$ 879.0	$298.6	$ 728.5	$232.0	$1,212.7	$1,554.9	$194.2	$370.6	$337.4	1,215.9	$318.0	$379.7
47.4	$1,201.8	$456.9	$1,206.9	$317.0	$2,361.9	$2,332.3	$322.3	$536.8	$482.1	$2,114.5	$485.3	$546.4
4.08	$ 4.26	$ 4.11	$ 3.48	$ 5.45	$ 6.53	$ 8.49	$ 10.16	$ 2.99[3]	$ 4.19	$ 9.66	$ 3.30	$ 5.71
3.3	1.9	2.9	2.2	2.6	2.7	3.1	2.1	2.1	2.6	3.8	2.5	2.7
10.2%	9.4%	10.1%	9.1%	6.9%	14.2%	10.8%	9.9%	7.4%	12.1%	13.2%	7.4%	9.7%
24.1%	30.0%	33.8%	32.1%	19.5%	33.9%	27.3%	27.7%	33.4%	26.7%	31.9%	24.3%	25.0%
16.5	$ 445.2	$274.9	$ 608.3	$131.3	$1,316.9	$ 874.7	$171.2	$ 84.5	$278.9	$ 950.7	$201.5	$170.4

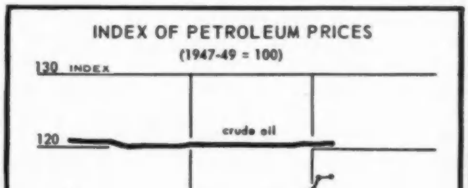
(1)—Includes deprec., depletion, amort., and retirements etc.
(2)—Includes amort. of drilling & develop. costs, dry holes and lease cancellations, etc.
(3)—Adjusted for Preferred Stock redemption.

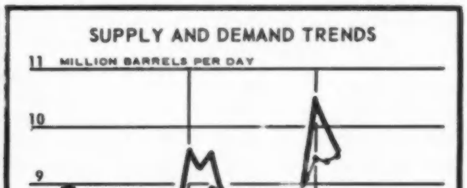
capital markets can provide only a small percentage of the total.

This grand total of $115 billion (nearby double the annual budget of the Government) points up the magnitude of the amount of capital formation needed. Moreover, it underscores the importance of maintaining conditions in which the financial mechanism can function properly.

Oil Search Costly

Costly and risky searches for petroleum along with plant-expansion and equipment programs are brought into sharp focus when it is realized that the Texas Co. alone has a 1956 capital investment budget of $325 million. Socony Mobil Oil Co. will spend a record $354 million this year in the Western Hemisphere on capital account. Capital expenditures by Shell Oil last year totaled more than $271 million, a rise of nearly $34.5 million for 1954. Included in Shell capital expenditures for 1955 is a total of $153,699,000 covering acquisition of leases and exploratory and development drilling for new crude oil and gas (*Please turn to page* 124)





Charts: Chase Manhattan Bank

Growth via Change:

Microwave tower and parabolic antennas at company's Nutley, N. J., research center are used for communications with points 91 miles distant. The electronic gear symbolizes the revolutionary change in the character of International Telephone & Telegraph, a corporate name that belies its major activity.

International Telephone & Telegraph

By L. A. LUKENS

International Telephone & Telegraph Corp. has recently emerged as a manufacturing company with a glamorous growth potential, after living under the cloud of its foreign telephone activities for many years.

The transformation of the company's business since 1945 has not been unattended by temporary reverses. But with the growth of the manufacturing operations, particularly in electronics, in recent years, and the steady improvement in the affairs of its foreign subsidiaries, the company has gradually acquired a greatly improved status. In contrast with other electronics producers, its book value and earnings appear attractive. The market price of its stock appears to have been undervalued. With an aggressive research program, that has been developing new products, and with an excellent group of technical chiefs, including some obtained through its German affiliate, ITT appears to be headed for growth that should outstrip that of the economy as a whole by a substantial margin during the next few years.

Last year, ITT set new records, both for consolidated net income, including foreign and domestic subsidiaries, and for parent company income. It appears to be assured of another record-breaking year in 1956, both in sales and earnings. Last year dividends declared were 30% higher than the year

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An Exclusive Statement for The Magazine of Wall Street:

THE FUTURE OF ELECTRONICS

by William H. Harrison, President
International Telephone and Telegraph Corp.

The electronics industry—usually defined to include all equipment employing vacuum tubes, transistors, or comparable devices for utilizing electrical energy in relatively small quantities—has grown from sales of less than $500 million in 1939 to more than $10 billion in 1955, and no limit is in sight.

Although electronics came of age in World War II, military sales today account for but one-fourth of the total. Commercial electronics has had its most notable success in radio and television, which are electronic industries properly so called; but still greater possibilities lie in the increasing importance of electronics to other industries.

Aviation will illustrate, for the development of that industry has almost exactly paralleled the development of various electronic aids to aviation including direction finders, communication equipment, altimeters, instrument low approach systems such as ILS and GCA, short-range navigation systems such as TACAN, and long-range navigation systems such as NAVARHO and LORAN.

Automation of repetitive operations in commerce, industry, and government has commanded so much attention recently that it is enough to say that we have only begun to scratch the surface of electronic development there.

In particular, I believe it is not generally realized that peace-time applications of atomic power depend almost entirely upon systems of control and measurement so instantaneous and exact only speed and versatility of electron can do the job.

It is not too much to say, therefore, that electronics will become increasingly responsible for the defense and prosperity of our nation, as well as for the elimination of much of what is now routine. Ours is an industry without frontiers.

before, and in the first quarter of this year a dividend of 45 cents a share was declared, against 35 cents in the last quarter of 1955. Hence, barring renewed international warfare, the stockholders appear to have entered a period during which ITT will substantially reward them for the disappointments and trials of previous years.

One of the most intriguing aspects of the ITT picture is the possibility of a merger with Underwood Corp. Talks looking to a merger are in an early phase. Such a deal would apparently strengthen both companies. Underwood, an old established business equipment producer, has been making progress in its new Electronic Computer Division after long delay in entering this promising field. Until now, the cost of developing an electronic computer that would rival those already being marketed by International Business Machines, Sperry Rand and Burroughs, has been a heavy drain on Underwood's earnings.

ITT long has been active in electronic and electro-mechanical techniques through its experience in the telephone field. Its engineers have developed automation equipment for handling data-processing and other repetitive clerical operations, including accounting, payroll, inventory, stock control, production control, etc. ITT-built equipment in the field of automation and electronics already is in service in banks, mail-order houses, etc.—institutions where Underwood's electronic computers would be sold, but thus far volume achieved in this field has been small.

They Complement Each Other

It appears that on balance, Underwood would contribute to such a merger an effective merchandising organization, while the ITT contribution would be primarily in the field of research and development. In the international and export field, moreover, ITT's chain of foreign manufacturing subsidiaries would be able to reinforce Underwood's present export efforts.

ITT's great strength at the moment, from the standpoint of such a merger, appears to be its research and development program. The company has been spending around 3% of sales on research and development—a high ratio. Some of this expense, it is believed, has been covered by defense contracts, in which the company has shown excellent progress.

Within the ITT system, research is carried on by four central laboratories:

Federal Telecommunications Laboratories (FTL) Nutley, N. J., Standard Telecommunication Laboratories, Ltd., London, England, Laboratorie Central de Telecommunications (Paris), and Standard Central Laboratories, Stuttgart in Western Germany. In addition, the laboratory divisions of the principal manufacturing plants are carrying on extensive research. The Nutley laboratory, together with Farnsworth Electronics Division, have a heavy defense load, because of the increasing importance of electronics to defense. Military output last year included the important Loran (long-range navigation) and Tacan (tactical air navigation) radar equipment. ITT's Federal Telecommunications Laboratories Division, which developed the original Tacan system that has been installed on the U. S. S. Forrestal and officially adopted by the Navy and Air Force of the

* Plus Stock Div.

United States and certain other NATO countries, is engaged in the further development of a civilian version of this equipment for manufacture by its Federal Telephone & Radio Division. Among components produced and marketed in 1955 were new selenium, germanium, and silicon rectifiers for uses ranging from power-supplies to guided missiles; miniature transformers for aircraft and industry; high-frequency cables for transmitting color television and special underground uses; and metal-

Long-Term Operating and Earnings Record (Consolidated)

	Total Sales	Total Gross Earnings	Taxes (Millions)	Interest & Fixed Charges	Net Income	Net Profit Margin %	Net Per Share	Price Range 1946-1955
1955	$448.3	$502.7	$39.7	$9.4	$23.0	4.7%	$3.21	36⅜-23¾
1954	372.6	423.8	31.7	6.1	20.0	[illegible].8	2.80	26¾-13⅞
1953	362.1	408.0	32.9	4.9	22.3	5.6	3.12	20¼-13½
1952	352.0	397.5	32.0	5.5	22.1	5.6	3.09	20¼-15
1951	255.2	297.9	24.4	4.2	17.9	6.2	2.60	19⅛-13⅛
1950	216.9	253.1	16.3	3.5	15.5	6.3	2.38	16 - 9¼
1949	201.0	233.3	15.2	3.6	4.6	2.0	.72	11⅛- 7½
1948	184.7	215.4	12.1	3.4	6.8	3.2	1.07	16½- 8¾
1947	142.6	173.3	8.8	3.1	.2	.1	.03	17¾- 9½
1946	26.8	59.8	3.5	1.8	(d)10.0	—	(d)1.57	31⅞-14¾
10 Year Average 1946-55	$256.2	$296.4	$21.6	$4.5	$13.2	3.8%	$1.90	36⅜- 7½

(d) Deficit

enclosed traveling wave tubes for microwave relay, radar, and countermeasure applications.

ITT's various plants and divisions have been active in guided missiles, through FTL, as well as through Farnsworth Electronics. The latter unit was formed late in 1954 to expand the research and production activities of the Capehart-Farnsworth unit in electronics and defense. Within a year it had established itself as a success. It has built up a reputation in the field of guided missiles, and has received important new orders for control equipment for both the Talos and Bomarc missiles, necessitating expansion of its plant in Fort Wayne.

Backlog is Strong

The company's big participation in defense contracts, both in the United States and through its foreign subsidiaries, is reflected in the strong position of its backlog. Orders on hand as of December 31, 1955 were $431 million, including $165 million in the United States, and $266 million in foreign countries, part of which represents offshore buying by the United States for defense. As of December 31, 1954, domestic orders were a little higher, at $194 million, but foreign orders were lower, at $205 million, a total of $399 million.

Consolidated net sales last year increased to $448.3 million, of which a little over one-half was accounted for by foreign operations. In the manufacturing field, foreign activities, represented by the International Standard Electric Corp., a wholly owned subsidiary, are carried on through 27 companies situated in eighteen foreign countries. In addition, an export department of ISE supplies the needs of the system abroad with components, raw materials and equipment from United States plants.

Vital Overseas Stake

The fact that over half of the company's sales are derived from abroad makes it highly desirable that conditions in the world remain stable and prosperous. Hence, it is noteworthy that General William H. Harrison, president, has reported improvement in foreign-exchange conditions, which means that the company will be able to remit dividends, interest and fees from subsidiary companies in larger amounts. This improvement, which began last year, was a contributing factor in the larger dividend payments voted for the year by the parent company.

Conditions actually are ideal for continued growth by ITT; for along with the substantial improvement in business conditions in this country and abroad, the company is benefiting from the continuation of the "cold war." The company is participating increasingly in defense of the United States and allied nations, and there is little likelihood that the state of international tension will be eased enough to result in substantial cutbacks of the defense business over the foreseeable future. Along with these defense orders, the company is making strides in "frontier" research, which eventually will be reflected in a very large civilian business.

Sales in Upsurge

Total consolidated sales last year were about 15% larger than in 1954, when the total was $399 million. Part of this gain reflects the fact that sales of the German subsidiaries were included for the first time since 1939.

Consolidated net income was $23,070,327, equivalent to $3.21 a share on the capital stock, after a special charge of $3,326,108 to write down the net current assets of the Argentine subsidiaries, owing to devaluation of the currency in terms of the United States dollar equivalent.

This compares with consolidated net income of $2.80 a share in 1954, when a special charge of $2.4 million was made to cover loss on the sale of assets of the Coolerator Division.

Net income of the parent company itself last year was $14.807,200, equal to $2.06 share, as compared with $9,724,253 or $1.35 a share in 1954. The earnings of the parent company represent that part of the consolidated earnings received by the parent company in dollars. The consolidated results include foreign-currency earnings translated into the equivalent of dollars, part of which is not available to the parent company because of foreign-exchange restrictions.

Prospective Gains Assayed

The report certainly indicates that the outlook for the company is increasingly favorable. It would seem that consolidated sales should rise at least 10% and net income of at least $3.50 a share should be achieved in 1956, with further gains next year likely, unless the trend towards stability and growth abroad is interrupted. The standard of living in foreign countries is steadily improving—indeed, in some countries, the rate of improvement is even more rapid than in the United States. This means increased sales of electronic products for industrial use. It also means a larger market for television sets and other products made for the consumer.

One factor which should contribute substantially to ITT's earnings by the latter part of this year, and during 1957 is the advent of color television. The Capehart-Farnsworth Division which makes color and black-and-white television sets, high-fidelity phonographs and table, clock and portable radios operated at a loss in 1955. The company is planning a more vigorous promo-

(*Please turn to page 122*)

Comparative Balance Sheet Items

ASSETS	December 31 1945	1955	Change
	(000 omitted)		
Cash & Marketable Securities	$ 47.731	$ 59.523	+$ 11.792
Receivables, Net	19.253	134.788	+ 115.535
Inventories & Supplies	7.901	187.663	+ 179.762
TOTAL CURRENT ASSETS	74.885	381.974	+ 307.089
Net Property	106.255	208.020	+ 101.765
Investment	257.638	66.428	— 191.210
Other Assets	3.420	31.029	+ 27.609
TOTAL ASSETS	$442.198	$687.451	+$245.253
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 18.184	$181.989	+$163.805
Deferred Liabilities	12.918	39.066	+ 26.148
Deferred Inc. & Misc. Reserves	21.695	12.194	— 9.501
Reserve for Depreciation	27.719	——	— 27.719
Minority Interest	3.565	14.569	+ 11.004
Long Term Debt, (Includ. Subs.)	94.563	78.156	— 16.407
Preferred Stock of Subs.	7.455	10.730	+ 3.275
Capital Stock	127.980	143.533	+ 15.553
Surplus	128.119	207.214	+ 79.095
TOTAL LIABILITIES	$442.198	$687.451	+$245.253
WORKING CAPITAL	$ 56.701	$199.985	+$143.284
CURRENT RATIO	4.1	2.1	— 2.0

INSURANCE STOCKS

"Clearing the Air"

By GEORGE TAYLOR

A principle of law is that mere preponderance of witnesses is not conclusive. While this theory may work in court, it certainly is not applied in other fields, for if ever there were a sign of the times it is that the longer the list describing a product the better it must be. Generally most of the reasons cited for buying a particular article are redundant and are merely restatements of a single idea. We find this true not only in advertising but also in the investment field. Several years ago someone put out a pamphlet titled "17 Reasons for Buying Insurance Stocks"; by this time, no doubt, the author has added several more, merely to keep in step with changing times. Generally the reasons cited for purchase of insurance shares are: growth industry, indispensable product, never obsolete, regulated for protection and profit, long dividend record, etc. By the time one gets finished reading this amazing list of attributes the only conclusion that can be reached is that insurance stocks are very close to being the perfect equity. This in turn has brought on the idea that insurance stocks should be bought, put away and then forgotten. Although such an idea as this is prevalent, it could easily be disastrous. While enormous profits could have been made in some stocks, others could have shown total losses. This concept of permanent investment is particularly common among endowment funds, trusteed acounts and small investors.

The fallacy in this reasoning is that the insurance industry is not static but in a permanent state of change. Surely the industry can be labeled "growth" but certain lines of coverage have grown much faster than others. Percentagewise, extended coverage has grown 40 times faster than straight fire since 1951. It is true that insurance departments are vitally concerned that rates are adequate to maintain financially solvent companies but the lag that occurs between experience and rates is often sufficiently protracted as to eliminate profits in individual lines for a good number of years. It is also true that there is no substitute for insurance, but it is equally true that co-insurance, self-insurance, and insurance protection from specialty and mutual carriers pose special problems for the stock companies.

No One Way Road for Insurance Stocks

Another major flaw in the theory of the "perfect stock" is simply that there is an enormous difference in the abilities and outlook of individual company managements, with changes occuring—for better or worse—in many companies each year. The "good old names" of yesterday may easily be the flops of the future and the transition companies of today could be the money-makers of tomorrow. Consider, for example the price history of Aetna Fire, Glens Falls and Phoenix, all well established "big name" groups, with consecutive dividend payments extending back 83, 90 and 82 years respectively. Since January 1, 1953, Aetna Fire has advanced from 65 to the current 74, Glens Falls from 61 to 74 and Phoenix from 77 to 84. Meanwhile such companies as Northern of New York advanced from 37 to 80 and Republic of Dallas from 20 to 80. How many investors held the former securities, at the expense of the latter? And how many investors owned such other luminaries as Government Employees Insurance, Trinity Universal and Gulf of Dallas, whose appreciation has been just short of phenomenal? The dividend records of the last five companies would show consecutive payments for 53, 35, 8, 19 and 23 years respectively. The list of poor performers could also have included such grand names as Boston which was 39 on January 1, 1953 and is 39 today—with a record of dividends going back 81 years; Hanover went from 42 to 48 during this 3¼ year period (dividends extend back 103 years); New Hampshire could have been bought at 45 on January 1, 1953 and now could be sold at 44—dividend record is 86 straight years; Providence Washington, organized in 1799 with a record of 48 consecutive years of dividends was 30½ then and now is 25. Put them away and forget about them? What more foolhardy course could be pursued than this?

The important question now is "Why the Disparity in market performance between the 'brand names' companies and those formerly of no investment status—and incidentally, still rarely found in professionally managed portfolios?" As the following table shows, the "off beat" companies were aggressive in seeking new business.

In the case of Government Employees Insurance Co., a new marketing method was employed by selling policies through the mails to government (Federal, State and Municipal) workers, thereby eliminating the very sizable agents' commission. Northern, on the other hand, increased its commission rate solely to get the cream of the business. In both instances profit margins on underwriting were excellent. Is it strange that Republic, Gulf, and Trinity Universal are all domiciled in Texas? Were conditions such that only the local companies could obtain the business? Of course not. Eastern big name companies had been writing business there for many years before these companies were even organized. It was simply a matter of agressively obtaining business that was "going abegging" and local interests saw the opportunity that established Eastern managements overlooked.

Per Cent Increase 1952 - 1955

	Net Premiums Written	Investment Income	Net Worth
Aetna Fire	13%	29%	25%
Glens Falls	7	28	38
Phoenix	7	25	23
Government Emp.	70	118	211
Northern	52	36	54
Trinity Universal	26	43	65

An interesting observation is this: Aetna Fire's net worth (or so called "liquidating value") is up 25% while its price rose 14%, Glens' net worth up 38% and price up 21% and Phoenix net worth rose 23% while price rose 9%. The market valued their increase in net worth at around 50%. On the other hand Northern's net worth increase of 54% compares with a 116% increase in price. Trinity and Government's price increase was also about double the percentage increase in net worth. The significance is simply this—that by and large the underlying net worth of a company is a small factor in determining the market price. At the present time there are about 69 fire and casualty companies generally traded in the over-the-counter market. Of these, 62 are selling below the "breakup" value, 23 being available at discounts of 40% or more. Many are selling below capital funds alone. That earning power is the key to the solution, one only has to consider that of 38 trading life stocks *none* sells below net worth.

Net Worth vs. Market Price

Not so long ago one of our leading financial magazines published an article about companies worth more dead than alive. There is probably no other group of securities today with so large a percentage of going companies in the above category—90% of fire and casualty insurance companies worth more dead than alive. To an extent, part of the disparity between market price and net worth can be attributed to the substantial rise in the market of securities held by insurance companies coupled with no appreciable rise in the last 18 months for the fire and casualty companies. Historically this condition of abnormally large discounts is usually the forerunner of a substantial price movement in insurance shares. But here again, if such a movement were to occur, the ones which will perform the best will N O T necessarily be those with the largest current discounts, but those with the most alert managements who have evidenced an ability to put on more than an average increase in premium volume. Last year the following companies were well above the average 6% increase in writings that the industry experienced:

Continental Casualty	up 15.1%	Republic of Dallas	up 12.0%
Employer's Group	" 13.4	Trinity Universal	" 11.6
Government Employees	" 15.6	United States Fire	" 11.8
Northern Insurance	" 17.6	Western Casualty	" 11.9
Peerless Insurance	" 14.8		

The above companies appear to be the ones most likely to succeed in the forthcoming years. As space does not permit a complete analysis of each, we confine our brief comments to the following companies: *Northern Insurance of New York,* ever alert to trends developing in the industry, recently formed a subsidiary, Autoplan, to write automobile policies in direct competition with Allstate. Management is excellent both from an underwriting and an investment standpoint. Underwriting-wise Northern has never feared to tread the paths that other insurance carriers avoided. Thus seven years ago when a mass exodus of underwriters took place in Florida because of successive years of bad hurricane experience, Northern stepped in and has reaped a bonanza, no huricanes of consequence occurring in the last seven years. Stock sells at 81, earned $9.27 last year and pays a dividend of $2.80 a share backed by investment income alone—exclusive of profits from the insurance business—of $4.76 a share.

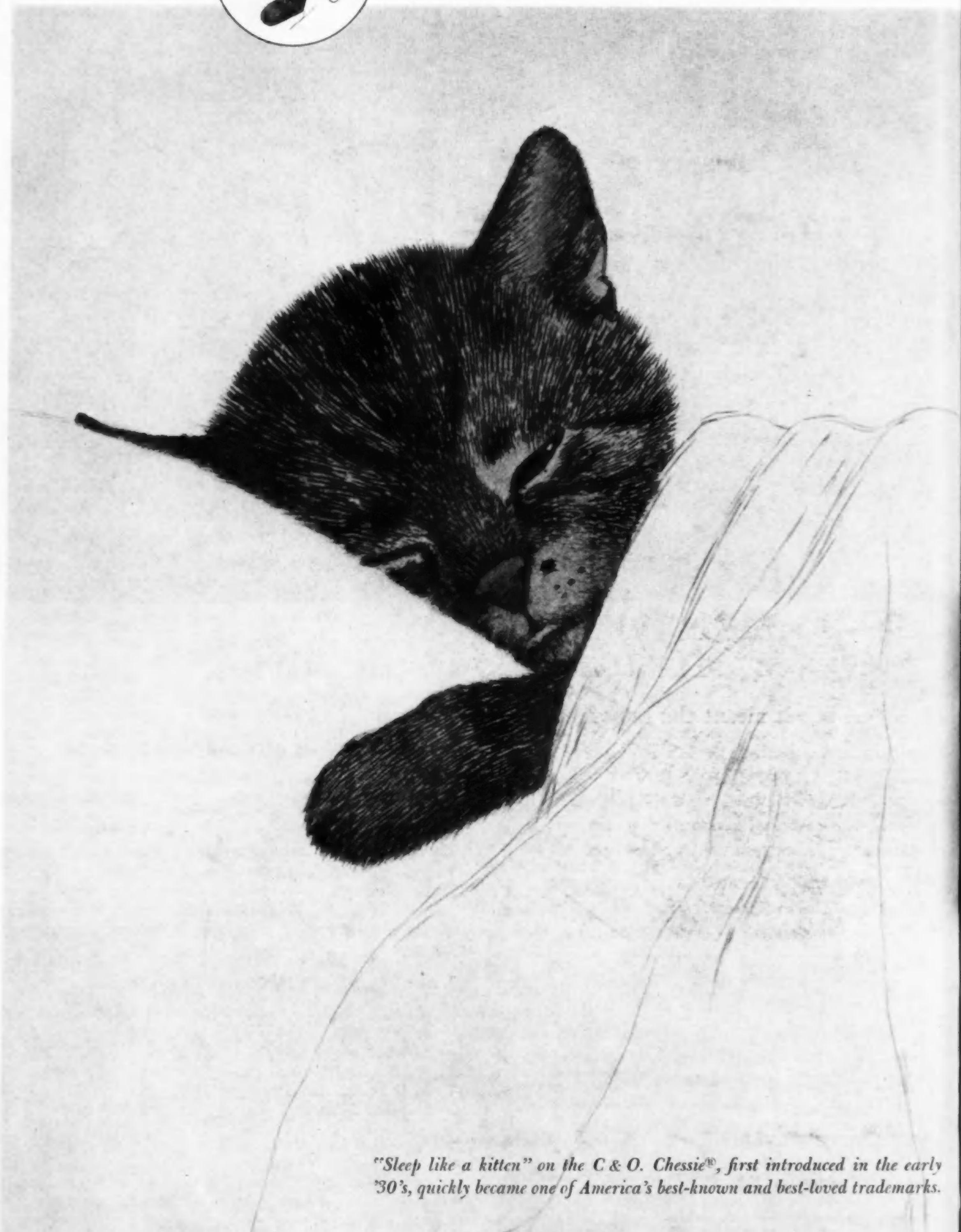
Peerless Insurance of Keene, New Hampshire, has recently revamped its management teams and now is headed by Dudley Orr, President of Peerless and Doug Whiting, President of United Life & Accident. The latter company is a 72% owned affiliate specializing in large face amount policies. Last year investment income was up 20%, reaching $1.15 a share. Company pays most of this in dividends ($1.00 dividend) and finances its growth by retention of higher than average underwriting profits. With the stock selling at 29 and earnings of $2.96 a share last year (and an increase in dividend is likely) it looks attractive. Future growth will be substantial with a doubling of premium volume in fire and casualty lines and a doubling in insurance in force likely within the next five years.

LIFE SHARES

There probably has been no group that has performed so well over the last 13 years as the life shares. Starting around 1943 the leading life company stocks put on a dazzling display that would stagger the imagination, as shown below:

	Cost 1/2/43	Market Value 1/2/56	Capital Gain	Dividends
Aetna Life	$1,000	$ 14,677	$ 13,677	$1,263
Connecticut Gen.	1,000	34,500	33,500	1,202
Continental Assur.	1,000	53,814	52,814	2,157
Lincoln	1,000	64,032	63,032	1,640
Total	$4,000	$167,023	$163,023	$6,262

(*Please turn to page* 120)



"Sleep like a kitten" on the C & O. Chessie®, first introduced in the early '30's, quickly became one of America's best-known and best-loved trademarks.

While the kitten slept

It is nearly a quarter of a century since the sleeping kitten first made its appearance in Chesapeake and Ohio advertising as the symbol of a smooth-running railroad.

Chesapeake and Ohio has grown during these years to a 5,100 mile system extending from the Virginia seacoast to the Great Lakes and Canada.

As a result of its planned program of diversification, and its dependable, on-time performance, C & O's merchandise freight business has more than quadrupled during this period.

C & O's diversified traffic—passengers, coal and merchandise freight—makes a healthy Chessie.

Chesapeake and Ohio is still the world's largest carrier of bituminous coal. Last year, C & O handled 78 million tons of coal for the homes and industries of America and for shipment abroad.

A guest on an over-night trip on Chesapeake and Ohio, say to C & O's famed Greenbrier at White Sulphur Springs, West Virginia, will find the all-room Pullmans are the most sleep-inviting to be found anywhere; the meals are tops; and the service is just as friendly and attentive as ever.

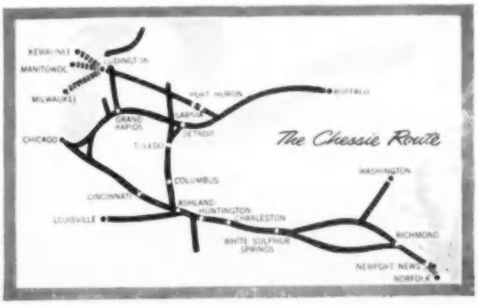
Chesapeake and Ohio's 90,000 stockholders are well aware that one of the country's longest earning records was unbroken even in the depression. Since 1899 C & O has paid dividends every year except 1915 and 1921. Last year Chesapeake and Ohio's regular dividend rate was increased from \$3.00 to \$3.50.

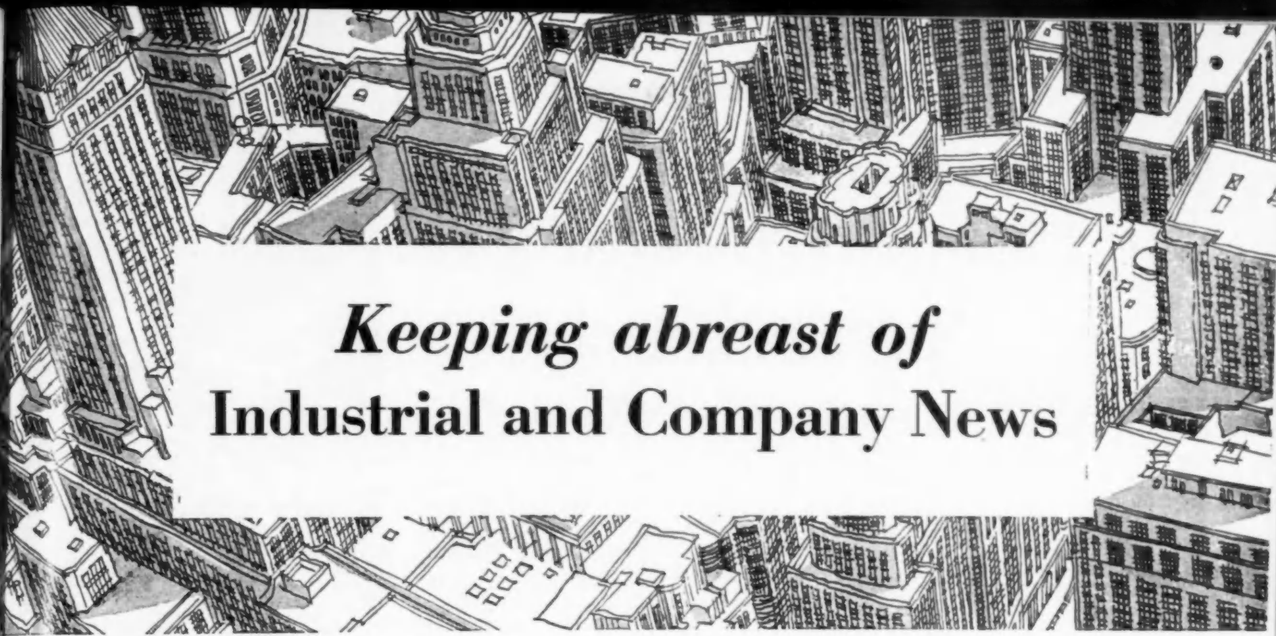
And what is Chesapeake and Ohio doing to keep in the forefront of American railroading? We'll tell you more about C & O's expanding services in following reports.

Would you like a portfolio of pictures of Chessie and her family? Write to:

Chesapeake and Ohio Railway

3807 TERMINAL TOWER, CLEVELAND 1, OHIO





Keeping abreast of Industrial and Company News

The tobacco industry is well on its way to another banner year. Americans consumed 32.9 billion cigarettes in January, a rise of 8% from the like 1955 month. Now, the Department of Agriculture comes along to forecast that cigarette production this year will top last year's total of 412.5 billion, which was 3% more than the 1954 output. Department forecasters feel only increased state taxes can push retail prices higher. New Jersey, meanwhile, has imposed an additional 2-cent levy on cigarette packs. The tobacco industry was aided last year by the declining interest in the health controversy. **R. J. Reynolds Tobacco,** maker of Camel, Winston and other brands, came through the year with record sales and earnings. Net rose 19% and sales by 6.4%.

The better feeling within the investment community toward the carriers does not extend to **Chicago & North Western Railway.** That road, which netted $2.4 million last year, lost more than twice that amount in the first two months of this year. While it is true that the early months in any year usually are difficult ones for the road because of wintry weather, the net deficit for the first two months of 1956 soared to $5,041,981, against a net loss of $1,758,841 in the first two months of 1955. This year's heavier loss reflects increased labor costs and an accelerated car-repair program, in addition to a change in allocation of certain expenses. Last month, control of the road passed to a group led by Ben W. Heinemann, an attorney who, in 1954, acquired control of Minneapolis & St. Paul Railway.

Underwood Corp. has made considerable strides under its new management, in the drive to solidify its competitive position within the office-equipment industry. In 1955, net profit was at $1,501,000, equal to $2.01 a share, a rise of 21% from 1954. It is noteworthy that fourth-quarter sales and profits continued the improvement trend of the three preceding quarters. Because of a substantial number of new models, obsolescence of inventory of extraordinary amount was incurred in the year, and it was anticipated that an inventory reserve of $650,000 would be used. However, at the end of the year it was thought preferable to retain that reserve as in the past against total inventories. This reduced final-quarter earnings by 42 cents. Of course, it maintained the same conservative valuation of inventories as previously.

Mixed trends are showing up in the automotive industry. **General Motors** is cutting back output to "balance out inventories" while **Chrysler Corp.** is stepping up output. Chrysler's Plymouth plants have called back to work some 2,400 workers, victims of layoffs that began in mid-January. Total industry production in the closing week of March was estimated at 127,709 units, 3% under the 131,288 of the preceding week and 28% below the 178,123 in the like 1955 week. For the first two months of the year, 1,742,177 new cars were turned out, 20% under the 2,175,372 in the year-ago period. For the first 13 weeks of 1956, G. M. output is off the smallest, or 9%. Chrysler is down 40% and **Studebaker-Packard** decline has been about the same. **Ford Motor Co.** is off 23% and **American Motors** has sustained a 16% decline. G. M. has raised its share of the industry total to 55.53% from 48.98% at the same time last year. Ford has dipped to 25.35% from 26.27%. Chrysler has fallen to 14.48% from 19.31%. American Motors went to 2.43% from 2.31% while Studebaker-Packard dropped to 2.19% from 2.90%.

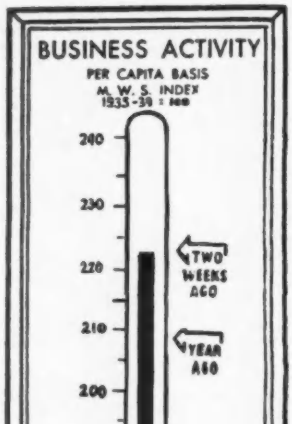
Minneapolis-Moline Co., manufacturer of farm equipment, inaugurated a "partial shutdown" of its tractor plant in Minneapolis at the start of this month. Nearly one-half of the 1,700 workers at the plant, which makes tractors and engines for irrigation pumps, farm saw mills and corn shellers, were affected. Layoffs were slated to range from a few days to a fortnight. The company attributed the halt in production of tractors primarily to a parts shortage. Reduction of engine production was laid to excessive inventory. The company, meanwhile, resumed operations this month at its Hopkins, Minn., plant, which was closed on March 19. That plant manufactures corn shellers, corn huskers, combines and windrowers. There, too, operations were halted to bring "into better balance inventories, sales and future production." —END

The Business Analyst

WHAT'S AHEAD FOR BUSINESS?

By E. K. A.

Retail trade developments during this month and during May will be extremely important to business men and investors. For, despite the oft-repeated assertion that consumer spending is being well maintained, the official retail trade data on a seasonally adjusted basis show a modest decline for the January-March period from the record high levels attained in the final quarter of 1955.



To be sure, the decline was not large, and total sales volume for the first quarter was some 3 per cent larger than in the first quarter of 1955. But, the first quarter was the low period of last year, well below the final quarter. There has been, it appears, a vast amount of confusion over how it is possible for business on a seasonally adjusted basis to be declining and still be running above a year earlier, and it is well to bear in mind that the trend of practically everything was upward throughout most of last year.

It would be quite possible for total retail sales volume this year to be as large as last year's $185.5 billion or even a little larger even though monthly volume—on a seasonally adjusted basis—declined steadily from the beginning to the end of the year. If this should occur, sales comparisons with a year earlier would become less favorable before long and well might show declines from the late Spring forward.

The psychological impact of declines in retail sales volume from a year earlier, even though the percentages were small, might prove to be much greater than warranted by the data themselves. Retail developments during April and May should indicate clearly whether the set-back in the first quarter was temporary or whether it marked the establishment of a trend.

During February and March, consumer buying of both nondurable and durable goods slackened. It had been expected that sales of automobiles and a number of other consumer durable items would slow down this year, following last year's heavy buying. But, at the same time, it was generally believed that buying of soft goods would rise as an offset. This trend was evident in the January sales data, but the soft goods uptrend was reversed in February and March.

Characteristically, retailers attribute the failure of sales to meet expectations to a series of unfavorable weather developments. Palm Sunday and Easter business was all but snowed out in the populous Northeast, while substantial sales gains were chalked up in most other sections where the weather was of a more seasonable nature. Even if weather had been normal, the early Easter might have been a deterrent.

However, it is not altogether certain that the weather alone was responsible for the consuming public turning coy. What happens this month and next will pretty well tell the story, and it appears advisable to defer judgment on the 100 per cent accuracy of retailers' assertions until additional sales data become available. There is widespread talk of the business upturn being resumed, following the recent hiatus, but the boom is unlikely to get very far off the ground unless consumers show more co-operation.

To no inconsiderable extent, retail developments are dependent upon consumers' attitudes towards the use of credit to finance purchases. Last year's greater-than-expected increase in sales volume reflected the willingness of consumers to use credit on an unprecedented scale. In the past, credit buying has been concentrated largely in durables, and this was true in 1955.

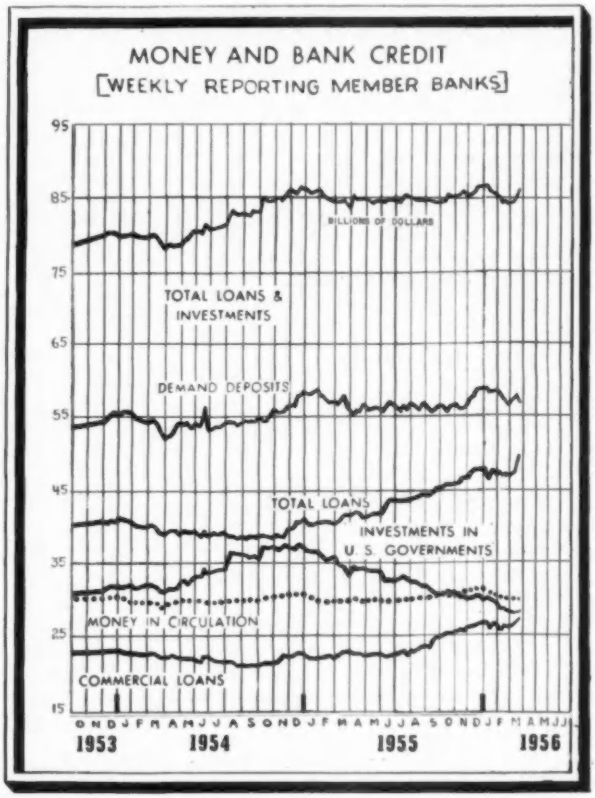
So far this year, the consuming public has shown some tendency to pay off on previous indebtedness, without incurring new debts, and to build up savings accounts. Soft goods retailers are endeavoring to induce consumers to use credit on a larger scale for financing soft goods purchases, and the success of these endeavors will have an important bearing on the trend of overall sales volume.

HIGHLIGHTS

MONEY & CREDIT—The heartening breezes of early Spring have failed to alleviate the freeze in the bond markets, where prices have been receding without much let up. Treasury issues have declined all along the line in the two weeks ending April 2, with long-term maturities losing as much as 1⅜ points, to penetrate previous lows, reached as long ago as last August. An interesting development has been the sharp set-back in maturities coming due in the next five to seven years, which has boosted yields in this area above that of longer-term obligations. The 2½s of 1961, for instance, were selling on April 2 to yield 3.15%, versus a 3.07% return to maturity on the 3s of 1995. This bulge in the shorter end of the yield curve may be ascribed to the strong demand for intermediate term money while many borrowers are unwilling to commit themselves to heavy interest charges for longer periods.

Corporate and municipal bonds have also felt the heavy pressure of liquidation in recent weeks. Yields on best grade corporates have risen by 4 basis points in the past two weeks, although yields are generally still under the 1955 highs. State and local issues have been even weaker, with yields in this sector at the highest level in almost three years. The disturbed market for seasoned securities found sharpened reflection in the new issue field where yields in many cases had to be pegged at the highest levels in almost three years to attract buyers. Some would-be borrowers have taken to the sidelines for the time being, in the hope that an improved market for their wares would be forthcoming later in the season.

Short-term funds were no exception to the general tightening of credit, most conspicuously in the case of brokers' loans, where many banks raised the rate to 4% from the 3½% level prevailing since October. This rise reflected not so much a growth in margin buying as the general shortness of bank funds, resulting primarily from heavy business borrowing. Many corporations are relying on the banks to finance rising inventories and record outlays for new plant and equipment, at least until a more receptive new issue market enables them to refund short-term obligations. In these circumstances, demand for bank credit has zoomed, and even the prime lending rate may be in line for an increase.



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TRADE—Retail sales in late March were running a bit ahead of a year ago, although inclement weather in the East counter-balanced most of the bolstering effects of the early Easter. Demand for new cars was holding steady at levels somewhat under a year ago. Furniture volume was high but household appliances got a mixed reception. In the soft goods field, apparel sales fell somewhat short of expectations but consumer buying of food remained at high levels.

———o———

INDUSTRY—Business activity in March matched the pace of recent months, according to the regular survey by the National Association of Purchasing Agents. New orders also appeared to be in a sidewise trend but prices of industrial materials were still moving upward. A good part of the price rise is due to the high rate of inventory accumulation, which is still continuing apace. Stockpiling is most evident in steel and is attributable to the desire for protection against price increases or labor troubles.

———o———

COMMODITIES—The Bureau of Labor Statistics' index of spot prices of 22 leading commodities rose 0.4% in the two weeks ending March 29, to close at 90.3% of the 1947-1949 average. Components of the index followed mixed trends. Raw industrial materials weakened slightly, losing 0.4%, while metals were unchanged. Textiles gave up 0.4% also and fats and oils were 0.5% lower. Foods hardened, adding 1.7% while livestock prices spurted 4.3%.

(Please turn to following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Jan.	3.1	3.4	3.1	1.6
Cumulative from mid-1940	Jan.	614.9	611.8	574.8	13.8
FEDERAL GROSS DEBT—$b	Mar. 26	276.3	277.7	274.2	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Mar. 21	56.5	57.6	56.3	26.1
Currency in Circulation	Mar. 28	30.2	30.3	29.7	10.7
BANK DEBITS—(rb)**					
New York City—$b	Jan.	67.6	68.7	60.8	16.1
343 Other Centers—$b	Jan.	114.3	109.6	97.8	29.0
PERSONAL INCOME—$b (cd2)	Jan.	312.5	314.8	292.2	102
Salaries and Wages	Jan.	216	216	199	99
Proprietors' Incomes	Jan.	50	50	49	23
Interest and Dividends	Jan.	28	30	25	10
Transfer Payments	Jan.	18	17	17	10
(INCOME FROM AGRICULTURE)	Jan.	15	15	16	3
POPULATION—m (e) (cb)	Feb.	167.0	166.7	164.2	133.8
Non-Institutional, Age 14 & Over	Feb.	118.2	118.1	116.9	101.8
Civilian Labor Force	Feb.	65.5	65.8	63.3	55.6
Armed Forces	Feb.	2.9	2.9	3.2	1.6
unemployed	Feb.	2.9	2.9	3.4	3.8
Employed	Feb.	62.6	62.9	59.9	51.8
In Agriculture	Feb.	5.5	5.6	5.1	8.0
Non-Farm	Feb.	57.1	57.3	54.9	43.2
Weekly Hours	Feb.	40.4	40.9	40.9	42.0
EMPLOYEES, Non-Farm—m (b)	Feb.	49.4	49.6	47.8	37.5
Government	Feb.	7.1	7.0	6.9	4.8
Trade	Feb.	10.7	10.9	10.3	7.9
Factory	Feb.	13.2	13.3	12.6	11.7
Weekly Hours	Feb.	40.6	40.6	40.4	40.4
Hourly Wage ($)	Feb.	1.93	1.93	1.85	0.66
Weekly Wage ($)	Feb.	78.36	78.36	74.74	21.33
PRICES—Wholesale (lb2)	Mar. 27	112.9	112.8	110.0	66.9
Retail (cd)	Jan.	207.6	208.1	207.3	116.2
COST OF LIVING (lb2)	Feb.	114.6	114.6	114.3	65.9
Food	Feb.	108.8	109.2	110.8	65.9
Clothing	Feb.	104.6	104.1	103.4	59.5
Rent	Feb.	131.5	131.4	129.7	89.7
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Jan.	15.7	15.8	14.9	4.7
Durable Goods	Jan.	5.5	5.7	5.1	1.1
Non-Durable Goods	Jan.	10.2	10.1	9.7	3.6
Dep't Store Sales (mrb)	Jan.	0.93	0.92	0.89	0.34
Consumer Credit, End Mo. (rb)	Jan.	35.6	36.2	29.8	9.0
MANUFACTURERS'					
New Orders—$b (cd) Total**	Feb.	27.8	28.1	24.8	14.6
Durable Goods	Feb.	14.3	14.7	12.2	7.1
Non-Durable Goods	Feb.	13.5	13.4	12.7	7.5
Shipments—$b (cd)—Total**	Feb.	26.5	26.4	24.6	8.3
Durable Goods	Feb.	13.3	13.1	12.0	4.1
Non-Durable Goods	Feb.	13.2	13.3	12.6	4.2
BUSINESS INVENTORIES, End Mo.**					
Total—$b (cd)	Jan.	82.6	82.1	76.9	28.6
Manufacturers'	Jan.	46.2	45.9	43.2	16.4
Wholesalers'	Jan.	12.3	12.3	11.5	4.1
Retailers'	Jan.	24.1	23.9	22.2	8.1
Dept. Store Stocks (mrb)	Jan.	2.7	2.6	2.5	1.1
BUSINESS ACTIVITY—1—pc	Mar. 24	223.2	222.7	208.6	141.8
(M. W. S.)—1—np	Mar.	286.9	286.2	262.6	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 103)

Dealers sold some 1,468,000 **NEW CARS** in the first quarter of 1956, second best such period in history, but down from the 1,552,735 registrations of a year ago. It is estimated that March sales will total 547,000 units, an improvement over the first two months, neither of which managed to reach the one-half million mark. Output in the first three months was about 200,000 ahead of sales and export demand was not big enough to make up the difference. As a result, dealers' stocks are still climbing and were well ahead of 900,000 units at the end of March. If output is stabilized at current levels and sales show further seasonal expansion, then dealers should be able to whittle down their stocks to some extent this Spring.

* * *

MACHINE TOOL manufacturers received $86 million worth of new orders in February, a substantial decline from the $115.2 million rate of the previous month but still well ahead of the $61.9 million of new orders received a year ago. Shipments in February advanced to $64.6 million, from the $54.6 million total of the previous month, while output, at $72.8 million, was virtually unchanged. At current production rates it would take 8.5 months to complete all orders on the books at the end of February. On January 31, producers had 8.4 months of work on the books, while in February 1955, it would have taken 4.2 months to complete backlogs, at the then-current monthly output rate of $76.2 million.

* * *

EXPORTS from the United States were valued at $1,276 million in January, 9% ahead of year ago results, although 1% under the monthly average for 1955. Exports in January included $82 million worth of goods shipped under the Mutual Security Program, which compares with $85 million of such shipments a year ago. Comparing January exports with the previous month, decreases were noted for passenger cars, railroad freight cars, cotton and soybeans.

IMPORTS into this country rose to $1,073 million in January, the fourth consecutive month of increase and the

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—ia np (rb)	Feb.	143	143	133	93
Mining	Feb.	131	130	123	87
Durable Goods Mfr.	Feb.	159	160	147	88
Non-Durable Goods Mfr.	Feb.	129	129	121	89
CARLOADINGS—t—Total	Mar. 24	697	686	639	933
Misc. Freight	Mar. 24	365	367	352	379
Mdse. L. C. I.	Mar. 24	60	62	62	66
Grain	Mar. 24	47	42	40	43
ELEC. POWER Output (Kw.H.) m	Mar. 24	11,134	11,202	9,907	3,266
SOFT COAL, Prod. (st) m	Mar. 10	9.5	9.9	8.4	10.8
Cumulative from Jan. 1	Mar. 10	100.2	90.7	87.4	44.6
Stocks, End Mo.	Jan.	65.9	68.4	65.9	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Mar. 23	7.2	7.2	6.8	4.1
Gasoline Stocks	Mar. 23	197	196	184	86
Fuel Oil Stocks	Mar. 23	34	35	46	94
Heating Oil Stocks	Mar. 23	66	67	63	55
LUMBER, Prod.—(bd. ft.) m	Mar. 24	248	233	261	632
Stocks, End Mo. (bd. ft.) b	Jan.	8.7	8.7	9.2	7.9
STEEL INGOT PROD. (st) m	Feb.	10.1	10.8	8.5	7.0
Cumulative from Jan. 1	Feb.	20.9	10.8	17.3	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Mar. 29	459	501	336	94
Cumulative from Jan. 1	Mar. 29	5,753	5,294	4,367	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Mar. 24	271	265	267	165
Cigarettes, Domestic Sales—b	Jan.	34	27	32	17
Do., Cigars—m	Jan.	453	432	446	543
Do., Manufactured Tobacco (lbs.)m.	Jan.	16	13	16	28

PRESENT POSITION AND OUTLOOK

second highest month in history. All-time peak was set in March, 1951 when imports hit $1,102 million. The January total was 6% ahead of December and 23% higher than a year ago. Increases from the December level were noted for such raw materials as wool, silk, sugar, cocoa beans, rubber and copra. In the manufactured field, imports of autos, wood and paper were higher. One commodity where imports dropped was copper, recently in short supply.

* * *

BUSINESS FAILURES were down 2% in February but 17% ahead of a year ago. The rate of failure was at a seasonally adjusted annual rate of 44 per 10,000 enterprises listed in Dun & Bradstreet's Reference Book. This compares with an index of 46 in January and one of 39 in February 1955. Although the number of failures decreased, **LIABILITIES** of failing firms were up 15%, to $49.2 million, a level exceeded only once in the post-war period. This rise was concentrated in companies with liabilities of $100,000 or more while failures of smaller firms were less numerous than in January.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. l—Seasonally adjusted index (1935-9—100). ia—Seasonally adj. index (1947-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 centers. st—short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

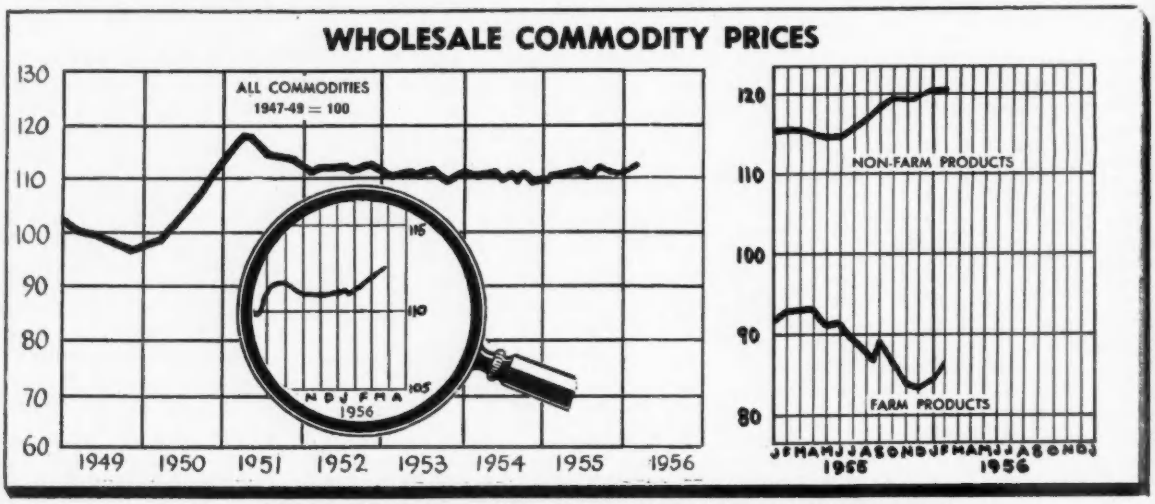
No. of Issues (1925 Cl.—100)	1955-56 Range High	1955-56 Range Low	1956 Mar. 23	1956 Mar.29
300 Combined Average	348.0	282.0	347.4	348.0H
4 Agricultural Implements	348.7	264.9	291.1	284.6
3 Air Cond. ('53 Cl.—100)	116.0	87.0	107.8	111.8
9 Aircraft ('27 Cl.—100)	1205.5	871.7	1136.4	1124.4
7 Airlines ('27 Cl.—100)	1263.6	971.2	1107.0	1086.1
4 Aluminum ('53 Cl.—100)	437.1	191.1	422.3	437.1H
6 Amusements	180.6	147.0	159.7	156.6
9 Automobile Accessories	373.7	308.3	370.1	373.7H
6 Automobiles	55.8	44.3	51.2	51.2
4 Baking ('26 Cl.—100)	30.6	27.8	28.7	28.1
3 Business Machines	1010.3	657.4	1001.4	1010.3H
6 Chemicals	628.3	466.6	628.3	628.3
4 Coal Mining	23.5	14.8	23.5	23.3
4 Communications	116.6	100.7	112.2	112.2
9 Construction	131.6	106.4	131.6	131.6
7 Containers	800.3	675.1	785.1	800.3H
7 Copper Mining	361.3	222.2	358.3	343.4
2 Dairy Products	127.0	111.7	116.4	115.2
6 Department Stores	100.2	80.0	91.8	91.8
5 Drugs-Eth. ('53 Cl.—100)	184.3	129.6	182.5	184.3H
6 Elec. Eqp. ('53 Cl.—100)	208.1	151.3	208.1	206.2
2 Finance Companies	651.1	565.1	601.8	595.8
6 Food Brands	301.6	256.2	295.7	301.6H
3 Food Stores	167.2	137.7	164.0	165.6

(Nov. 14, 1936 Cl.—100)	High	Low	1956 Mar. 23	1956 Mar.29
100 High Priced Stocks	235.4	180.6	234.5	235.4H
100 Low Priced Stocks	411.1	343.5	408.9	409.8
4 Gold Mining	165.0	140.8	853.1	830.8
4 Investment Trusts	165.0	140.8	165.0	165.0
3 Liquor ('27 Cl.—100)	1155.7	961.3	1055.9	1045.8
9 Machinery	432.1	317.7	424.4	432.1H
3 Mail Order	234.1	159.3	208.5	206.3
4 Meat Packing	157.2	112.8	151.9	157.2H
5 Metal Fabr. ('53 Cl.—100)	205.7	155.9	205.7	205.7
10 Metals, Miscellaneous	464.9	358.2	464.9	456.3
4 Paper	1217.8	767.1	1175.8	1217.8H
22 Petroleum	816.9	590.0	803.1	816.9H
21 Public Utilities	261.5	234.8	261.5	261.5
7 Railroad Equipment	93.3	73.4	92.4	92.4
20 Railroads	80.5	64.7	78.9	80.5H
3 Soft Drinks	565.7	459.9	528.9	534.2
12 Steel & Iron	330.6	219.2	330.6	330.6
4 Sugar	68.8	56.1	63.8	62.5
2 Sulphur	964.0	813.8	950.2	932.0
11 Television ('27 Cl.—100)	47.3	40.1	43.6	43.2
5 Textiles	188.9	148.4	173.3	175.2
3 Tires & Rubber	201.0	137.8	199.1	201.0H
5 Tobacco	95.7	81.9	92.9	92.0
2 Variety Stores	315.0	286.9	298.8	295.9
15 Unclassif'd ('49 Cl.—100)	158.1	141.9	153.8	153.8

H—New High for 1955-1956.

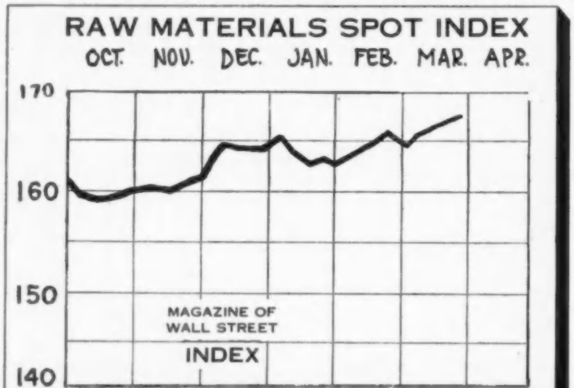
Trend of Commodities

Most domestic futures were higher in the two weeks ending April 3, but prices of imported commodities declined in futures dealings. The Dow-Jones Commodity Futures Index was hobbled by weakness in the latter and gained only 0.43 points during the period under review. May wheat added 8⅛ cents during the fortnight to close at 230½. Several contracts, including the May, reached life-of-contract highs on the last day of the period. The nearby contract has been especially strong, reflecting the large open interest remaining to be settled, in the face of small deliverable stocks in the Chicago area. Legislative action on the farm bill was constructive for higher prices although there is no guarantee of White House approval. Weather conditions are still far from ideal and the danger of serious damage to the new crop still exists. Export demand has been increasing of late and more light on the amount of damage to European winter wheat may soon be forthcoming. May corn advanced 4 cents in the two weeks ending April 3 to close at 142½. New crop options were bought freely on hopes that Congressional action to raise support prices would be enacted, with benefit to the 1956 crop. There are signs that the crop may be smaller this year with farmers reporting that they intend to cut acreage by 3½%. Rain has been inadequate in some areas but there is still time for heavy Spring precipitation to remedy this condition. May cotton was slightly higher in the latest period, advancing 10 points to close at 35.63 cents. Senate-House conferees have approved a 90% of parity support level for basic crops, including cotton, but traders seem dubious that it would win the President's signature. Repossessions have declined but no shortages of "free" cotton seems in prospect.



U. S. DEPARTMENT OF LABOR INDEX OF 22 BASIC COMMODITIES
Spot Market Prices — 1947-1949, equals 100

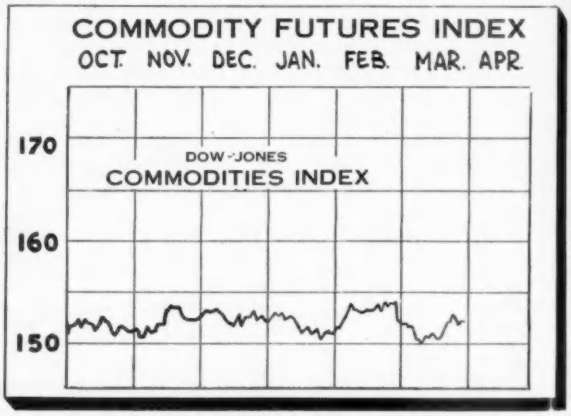
	Date Mar. 29	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
22 Commodity Index	90.3	89.9	90.0	89.8	53.0
9 Foodstuffs	78.7	77.4	74.9	87.1	46.5
12 Raw Industrial	99.2	99.6	102.1	91.6	58.3
5 Metals	128.9	128.9	127.6	107.1	54.6
4 Textiles	80.1	80.4	80.4	84.8	56.3
4 Fats & Oils	66.2	66.5	63.2	64.6	55.6



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1955-6	1954	1953	1951	1945	1941	1938	1937
High	167.2	154.4	162.2	215.4	117.7	88.9	57.7	86.6
Low	153.6	147.8	147.9	176.4	98.6	58.2	47.3	54.6



Average 1924-26 equals 100

	1955-6	1954	1953	1951	1945	1941	1938	1937
High	173.6	183.7	166.5	214.5	95.8	74.3	65.8	93.8
Low	150.4	167.3	153.8	174.8	83.6	58.7	57.5	64.7

Greater reliance on competition in rates among the different types of carriers, subject always to essential safeguards of ICC regulation, would make for more efficient use of our transportation plant, and more economical service for all of us. This key recommendation in the report of a special Cabinet-level Advisory Committee named by the President is here discussed by Mr. Faricy.

The Right to Compete

Cornerstone of Modern Transportation Regulation

By WILLIAM T. FARICY

President, Association of American Railroads

Three outstanding facts about transportation in the United States today are:

1. that "within the short span of one generation this country has witnessed a transportation revolution";
2. that "during this same period, government has failed to keep pace with this change"; and
3. that "in many respects, government policy at present prevents, or severely limits, the realization of the most economical use of our transportation plant."

These statements are not mine. They are from a report made by a special committee of Cabinet officers and other high ranking government officials established by President Eisenhower in July, 1954. The report, made public by the White House in April, 1955, was unanimous, being concurred in by all seven of the Cabinet-level officers who composed the Committee.[1]

The key recommendation of the Cabinet Committee is that in today's competitive transportation world, where the user has his choice of many means of carriage, greater reliance should be placed on competition in pricing as among the various modes of transport. This is what the Committee regards as the "cornerstone" of a modern system of regulation designed to bring about a more effective use of our transportation resources.

Regulation, Yes, But Not Allocation

As matters now stand, one of the principal tests applied by the Interstate Commerce Commission in its control over rate competition among the different types of carriers is the concept that the government's power to regulate rates should be used to see that each form of transportation gets what the Commission deems to be its "fair share" of the available traffic.

Thus, when the railroads proposed to reduce rates upon tank-car movements of petroleum products in California and Oregon as a means of regaining some of the traffic which had been lost to barges and trucks, the Interstate Commerce Commission found that the proposed rates, while yielding revenues which would "contribute substantially to the overhead burden and profits," should nevertheless be rejected because they were lower than the cost to the shipper of using the competing barge-truck routes and thus "lower than is necessary fairly to meet the competition." Moreover, from the Oregon points, the ICC ordered the rates cancelled because they would "affect adversely the maintenance of competitive motor-carrier transportation."[2]

For like reasons, the Commission has refused to allow railroads to make competitive reductions which they have proposed in rates on sugar from ocean ports to Cincinnati and Louisville, on tinplate from Alabama to New Orleans, on petroleum products from Whiting, Indiana, to Illinois points, on coffee from Los Angeles and San Francisco Bay points to Northern Utah and Idaho, on magazines from Philadelphia and Darby, Pennsylvania, to Texas, on sulphur from Texas to Wisconsin, on scrap rail from Gulf ports to Chicago and on aluminum articles from Texas to Illinois and Iowa—to name a few other instances.

Such a policy of attempting to allocate business among the different types of carriers requires, in effect, that one form of transportation hold an "umbrella" over the rates and traffic of its competitors by another form of carriage. But if one form of transportation, because of its inherent nature, is able to move a given commodity between given points at a lower rate than competing forms, to do so at a profit, and to do so without discriminating against other shippers, then why should not the low-cost carrier have the business and why should not the public have the saving?

That, in essence, is what the Cabinet Committee's report proposes—namely, that the law should make it clear that through its power of rate regulation neither the Interstate Commerce Commission, nor any other governmental body, should undertake to allocate and divide business among the different types of carriers. The position of the Cabinet Committee is that "the market"—competitive pricing along with competitive service—can do this job

[1] Revision of Federal Transportation Policy: A Report to the President, April, 1955. U. S. Government Printing Office, Washington, pp. iv. 20. Members of the Committee are Sinclair Weeks, Secretary of Commerce, Chairman; Charles E. Wilson, Secretary of Defense; and Arthur S. Flemming, Director Office of Defense Mobilization, and, as Ad Hoc Participating Members, George M. Humphrey, Secretary of the Treasury; Arthur E. Summerfield, Postmaster General; Ezra Taft Benson, Secretary of Agriculture; and Rowland E. Hughes, Director, Bureau of the Budget. The report and recommendations of the Committee are unanimous.

[2] 284 ICC, pp. 287, 296, 304, 306.

better than it can be done by any sort of government allocation.

Essential Rate-Making Standards Maintained

In taking this position, the Presidential Committee did not recommend, and no one contemplates, doing away with the power of the Interstate Commerce Commission to regulate rates. Rates would still have to be published in tariffs filed by the carriers with the Interstate Commerce Commission, as they now are, and still would have to be adhered to as published. Rates still would not go into effect ordinarily until 30 days after filing, and there still would be opportunity for shippers or other carriers to protest or for the Commission to act on its own motion.

The Commission would still have responsibility and power to see that rates are neither unreasonably high nor unreasonably low—a principal test being that they shall be compensatory to the carrier proposing them—and that they do not unjustly prefer or discriminate against any person, any community, or any region. But within these limitations, the recommendations of the Presidential Committee contemplate that competitive pricing, as well as competition in service, should prevail.

Such a result could be accomplished by a simple change in the statutory standards to be applied in determining whether a proposed rate is lower than a reasonable minimum, without affecting the other standards presently applied by the Interstate Commerce Commission. The essential standards would continue as they now are *except* that in determining whether a proposed rate would be less than a reasonable minimum the Commission shall not consider its effect upon the traffic of any other mode of transportation, nor its relation to the charges of any other mode, nor whether it is lower than necessary to meet the competition of any other mode of transportation. Such a proviso would make it perfectly clear that the Interstate Commerce Commission is not expected to undertake an artificial and arbitrary apportionment or distribution of traffic among the several forms of transport.

With traffic distributed in accordance with the natural capabilities and advantages of each kind of carrier, a better balanced development of our national transportation plant would follow. In such a development, each mode of surface transport—rail, highway and water—would take its proper place and part, performing those services which it can do better and more economically than the other modes, with both rates and service always taken into consideration. And the public, the users of transportation, would get the benefit.

This sound idea, so thoroughly in accord with the customs, the traditions and the thinking of the American people, has been met with bitter objection from spokesmen for some of the trucks—principally the heavy highway freight haulers—and some of the inland waterway barge carriers.

They have objected to the composition and the procedures of the Cabinet Committee and the working group, or staff, by whom it was assisted. Attempts have been made to create an impression that the working group gave consideration to the views of the railroad industry alone, but the fact is that other groups also submitted their views and that representatives of the trucking industry submitted written recommendations and also discussed them with the chairman of the group. The insinuation that the seven high government officials who concurred in its unanimous recommendations, and also the group of highly qualified and disinterested private citizens who did the preliminary staff work, listened only to railroad representations is simply not true.

The "Monopoly" Bugaboo

According to assertions of trucking spokesmen, this recommendation for greater freedom of competition between different modes of transportation would turn transportation back to a state of "cut-throat competition" said to have existed before 1887, when the original Act to Regulate Commerce was passed.

There isn't a chance of a return to the conditions of 1887, either in the physical facts of transportation or the legal terms under which the business is conducted.

In 1887, the only effective competition was that among railroads. Since then, billions of dollars have been spent on building and improving waterways, and the waterways are here and will remain. Many more billions have been spent on improved highways, and the highways are here and will remain. These waterways and highways are used by tens of thousands of common and contract carriers by water and by motor vehicle. They are also open to the use of anyone who wishes to move his own goods in his own vehicle and vast tonnages are so moved. Indeed, nearly two-thirds of all intercity freight traffic on the highways and more than nine-tenths of inland waterway traffic is either of this character or is otherwise exempt from interstate regulation as to rates. The mere physical facts as to the extent of transportation facilities in this country, and the variety of their ownership and use, make any chance of general monopoly in transportation too remote to deserve consideration.

From the standpoint of the laws, there has been an equally striking change. Prior to 1887 rates could be made in secret. Now rates are required to be published, with due public notice, and must be adhered to as published. Prior to 1887, there was no statutory prohibition against discriminations or preferences in rates. Now, rates of regulated carriers cannot discriminate against one shipper, or commodity, or community, or region, and cannot prefer another.

There is no recommendation in the Cabinet Committee's report which would depart from these requirements. Adoption of the Committee's report would not authorize the making of secret rates. It would not do away with the requirements of public notice and of adherence to the published rate. It would not permit the making of rates which are either discriminatory or preferential. And the Interstate Commerce Commission would have power to enforce these principles, as well as to prohibit rates which are either unreasonably low or unreasonably high.

No, with competition what it is and the laws what they are—and what they will remain if greater freedom of competition in pricing as among the different modes of transportation is adopted—there is no possibility that a transportation monopoly could be created or sustained.

No Below-Cost Rates

But motor and water carriers assert that to permit greater freedom in the making of competitive rates would enable the railroads to destroy highway and waterway competition. It must always be remembered, however, that under the Cabinet Committee's recommendation, as well as under present law, railroads could not make below-cost rates. If it be true, as claimed by spokesmen for trucks and barges, that they could not continue to exist in the face of competitive rates which are compensatory and non-discriminatory, then it would follow that trucks and barges often would have no proper place in the transportation system and would exist only because the railroads are restrained from meeting their competition.

Such an assertion is, of course, absurd. In transporting many kinds of freight, trucks and barges have advantages in service or cost or both. The report contemplates that trucks and barges should have complete opportunity to give full force and effect to their competitive advantages whenever they exist—the same opportunity, in fact, as is proposed for the railroads.

Another assertion of opponents of the recommendation, equally baseless, is that greater freedom in competitive rate-making would burden shippers of so-called non-competitive or "railbound" traffic. The assertion has repeatedly been made that if rail rates on competitive traffic are reduced it would be necessary for non-competitive traffic to pay higher rates to offset the revenue losses.

Rates × Volume = Revenue

Such assertions rest on a completely erroneous premise, namely, that lower competitive rail rates would reduce rail revenues. Railroad revenues are the product of two factors, rates and volume. The only motive or purpose the railroads would have in publishing reduced competitive rates would be to attract enough increased volume to more than offset the reduction in rates, and thus to produce greater net revenue.

Such competitive rates, it should be borne in mind, would be required to be compensatory as well as non-discriminatory so that instead of hurting non-competitive traffic, they would benefit it by reducing the share of the necessary fixed overhead expense the non-competitive traffic is called upon to bear. What the shippers of non-competitive traffic have real reason to fear is that competitive traffic will continue to be drained from the railroads, thus increasing the burden of overhead and fixed expense which will have to be borne by the traffic remaining on the rails.

How this works in practice was well stated by the Interstate Commerce Commission as follows:

"It is a well-established and generally recognized rule that if additional business can be taken on at rates which will contribute at least a little in addition to the actual out-of-pocket expense, the carrier will be advantaged to that extent and all its patrons will be benefited, to the extent to which such traffic contributes to the net revenue."

The Competitive Principle

The competitive spirit has been the driving force of progress in America; the competitive principle is the very foundation of our national economy. That greater reliance should be placed on this principle in the determination of rates as among the several kinds of carriers—always subject to the continuing limitations of essential ICC regulation outlined above—is the heart of the Cabinet Committee's recommendations.

While spokesmen for trucking and barge interests object to the principle, it has received the endorsement of such major organizations of users of transportation as the American Farm Bureau Federation, the National Grange, the Chamber of Commerce of the United States, and the National Industrial Traffic League, which is the major nation-wide organization of men who, as shippers, deal daily with the practical problems of rate making and regulation.

What this experienced body of transportation experts, who use the services of every kind of carrier and are concerned only with maximum transportation efficiency, has to say on the subject is particularly in point. On November 23, 1955, the League approved amendment of Section 15a(2) of the Interstate Commerce Act by adding the following proviso to the considerations to be taken into account by the Interstate Commerce Commission in "the exercise of its power to prescribe just and reasonable rates":

"Provided, however, that in determining a minimum rate the commission shall not consider the effect of such rate on the traffic of any other mode of transportation, the relation of such rate to the rate of any other mode of transportation, or whether such rate is lower than necessary to meet the competition of any other mode of transportation."

Without going into any of the technical details involved, President Eisenhower, in his message on the state of the Union submitted to the Congress on January 5, 1956, had this to say:

"In my message last year, I referred to the appointment of an advisory committee to appraise and report to me on the deficiencies as well as the effectiveness of existing Federal transportation policies. I have commended the fundamental purposes and objectives of the committee's report. I earnestly recommend that the Congress give prompt attention to the committee's proposals."

Fundamental among these proposals is that to allow greater freedom in pricing among the different types of transportation. Under such conditions, with each user of transportation free to choose the type of carriage which best meets his needs for any particular task, the transportation needs of the nation as a whole would be met with maximum efficiency and at minimum cost—and the producer, the shipper, the consuming public and the national defense all would benefit.

We shall be glad to send additional copies of "The Right to Compete: Cornerstone of Modern Transportation Regulation" to those who request them. Address: Association of American Railroads, 949 Transportation Building, Washington 6, D. C.

Only Chrysler Corporation cars have the modern advantage of simple mechanical Pushbutton driving now, tested, proven, making life simpler and safer for motorists. This is the kind of engineering leadership you find in Plymouth, Dodge, De Soto, Chrysler & Imperial.

FOR PROFIT AND INCOME

Mixed

Stock groups performing well at this writing include aircraft, aluminum, building materials, chemicals, coal, drugs, machinery, office equipment, oils, steel and tires. Coppers have dipped on profit-taking, with some tentative indications that the top in the metal's world price may have been put behind. Among the currently slow or laggard groups are automobiles (excepting General Motors), finance companies, farm machinery, most retail stocks, movies and textiles.

Out Front

A few of the fairly numerous stocks showing special strength at this time are Alcoa, Armour, Babcock & Wilcox, Boeing, Chicago Pneumatic Tool, Continental Oil, Corning Glass, Dana Corp., Filtrol, Great Northern Railway, Hercules Powder, International Tel. & Tel., Marathon, Maytag, Minneapolis-Honeywell, Minnesota Mining & Manufacturing, Oklahoma Gas & Electric, Otis Elevator, Owens-Corning Fiberglas, Parke, Davis; Pittsburgh Plate Glass, Richfield Oil, Schering, Seaboard Oil, Sinclair, Skelly, Standard Oil (Indiana), Sunbeam, Worthington and York.

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Here are some past recommendations made here, current prices and our present opinions on the stocks: Hilton Hotels late in 1953 at 15, now at 45. It is worth holding but too far up to invite new buying . . . Standard Oil (New Jersey) late in 1954 at 100, now around the equivalent of 180, allowing for the recent 3-for-1 split. Hold it. Buy it on dips. It is foolish to sell this kind of stock unless you have basis, which is absent, to expect a big and protracted bear market . . . Texas Utilities late in 1954 at 28 (adjusted for 2-for-1 split last October), and now at 42. Hold it. Buy it on dips . . . American Gas & Electric in mid-1955 at 45, now around 59. Hold it. Buy more on dips . . . Warner-Lambert late last year at $39\frac{1}{2}$, now at $44\frac{3}{4}$. The stock should work materially higher over a period of time . . . General Refractories early this year at 35, now at $42\frac{1}{2}$. Hold it for moderate further rise.

Masonite

This company is the dominant maker of hardboard. It is faring well now and the indicated long-range potential in growth of demand for this product is impressive. The management has scheduled a sizable further plant-expansion program. About half of output goes into building, the rest into a wide variety of non-building uses. Earnings for the fiscal year ended last August 31

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		1955	1954
Island Creek Coal	Year Dec. 31	$3.17	$1.43
Republic Aviation Corp.	Year Dec. 31	10.01	6.10
U. S. Steel	Year Dec. 31	6.44	3.23
Armco Steel	Year Dec. 31	6.05	3.93
Food Machinery & Chemical	Year Dec. 31	4.53	3.80
General Amer. Transport	Year Dec. 31	5.24	4.79
Aluminum Co. of Amer.	Year Dec. 31	4.18	2.95
Pennsylvania R. R. System	Year Dec. 31	3.81	2.15
Granby Consol. Mining S. & P.	Year Dec. 31	1.67	.91
Crane Co.	Year Dec. 31	3.60	2.25

rose to $4.42 a share, from $2.67 in the prior year. Profit for the quarter ended February 29, a period of seasonally low building activity, was $1.14 a share, against 74 cents a year ago. Growth, plus seasonal betterment in the next two quarters, appears to promise current-year profit approaching $6 a share. Dividends are always conservative, and expansion needs are a consideration. The regular rate is $1.20, increased from $1 late in 1955. Last year the company paid a 50-cent extra plus 2% in stock. The extra should be larger this year, and may again be supplemented with a payment in stock. The issue figures to move more in line with earnings than with yield. At 48½, it has had a good rise from earlier 1956 low of 35¼ and from 1955 low of 25⅜. However, it is still priced at little over eight times likely earnings, and long-run earnings promise to be well above this year's. There should be a worthwhile capital-gain potential still in the stock, especially if it is bought in periods of corrective reaction.

Westinghouse

Westinghouse Electric rallied from a low of 53¼ last October, down from earlier high of 83¼, to around 60 in the forepart of this year; and then to 65⅞ following recent settlement of the strike—the longest major-company strike in modern times. Many holders took advantage of the strike-settlement bulge in the stock to get out. It has already receded to a little under 60. The fact is that the company was in trouble before the strike started. Thus, its earnings in the first nine months of 1955 were down to $2.57 a share, from $3.80 in the like 1954 period, while those of General Electric improved slightly. The shrinkage was ascribed to earlier price-cutting on heavy electrical equipment, and to the normal lag between rising orders therefor and shipments thereof. The fact remains that General Electric made a superior showing. Even though settled, the long strike added to Westinghouse's management and personnel problems. They cannot be quickly resolved. Maximum earnings were $5.36 a share as far back as 1950. The best subsequent showing was $4.78 a share in 1954, which was cut to $2.46 last year. It seems improbable that profit will exceed $3 a share this year. It could be less. Record General Electric profit was $2.32 a share last year; and it may be bettered by 20% or more this year. Around 64, this stock is, of course, premium-priced. Yet there is no doubt that, on a long-pull view, it is a better Hold or Buy than is Westinghouse. We certainly would not buy the latter, and the wisdom of holding it is questionable.

Metal Fabricators

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Selections

Among the better metal-fabricating stocks are Revere Copper & Brass, Bridgeport Brass and Mueller Brass. Revere may net close to $10 a share this year, a gain around 20%-25% over 1955. Dividends totaled $3.75 a share last year and should be well over $4 this year. A 2-for-1 stock split is pending. The stock is at 85. Bridgeport could earn over $6 a share this year, against 1955's $4.28, suggesting a substantial liberalization of the $2.50 dividend. Looking a couple of years ahead, the profit potential, under reasonably satisfactory general business conditions, could exceed $8 a share. The stock, despite substantial prior rise, remains reasonably priced around 50. The smaller Mueller Brass holds a good competitive position. Profit for the fiscal quarter ended February 29 was $1.27 a share, against 96 cents a year ago. Net for the year ending next November 30 might reach or slightly exceed $5.50 a share, compared with the prior year's $4.58. Dividends were raised late in 1955 from $1.60 to a $2 basis. A sizable year-end extra is likely this year. The stock is moderately priced at 38 in a 1955-1956 range of 42⅜-30¾.

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Judging by estimates and general opinions of company heads voiced at recent annual shareholders' meetings, and by earnings reported by some companies for fiscal quarters ended January 31 or February 29, earnings to be shown for the 1956 first quarter figure to make a generally good showing, on year-to-year comparison, in the industrial and utility fields. The comparison for rails will be less favorable. Since they got needed rate relief, effective March 7, results will be better.

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Curtis Publishing Co.	Year Dec. 31	.40	.52
Martin (Glenn L.) Co.	Year Dec. 31	4.92	7.85
McCall Corp.	Year Dec. 31	1.74	2.19
Glen Alden Corp.	Year Dec. 31	.08	.11
Rheem Mfg. Co.	Year Dec. 31	3.10	3.67
Braniff Airways Inc.	Year Dec. 31	.90	2.81
Pullman Inc.	Year Dec. 31	4.34	6.05
Transamerica Corp.	Year Dec. 31	3.16	4.13

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Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

R. J. Reynolds Tobacco Company

"With all the health scare talks in regard to the effects of excessive smoking, I would be interested in finding out how R. J. Reynolds Tobacco Co. fared last year as to sales and earnings. Please also advise book value per share of the stock." T. E., San Jose, Calif.

R. J. Reynolds Tobacco Co. manufactures Camel cigarettes and Prince Albert smoking tobacco which are the largest sellers in their fields. King-size and filter-tip brands are also produced. The company enjoys a good profit margin in its industry.

Despite the various health scares in regard to excessive smoking of cigarettes, consumption of cigarettes increased last year.

Net earnings of R. J. Reynolds Tobacco Co. for 1955 established a new high record and sales exceeding those of 1954 by 6.4%.

Net earnings amounted to $53,267,637, an increase of $8,440,844, or 19%, over the 1954 earnings of $44,826,793, the previous peak level. After providing for dividends on the preferred stock the 1955 earnings were equal to $5.05 per share on the 10,000,000 shares of common stock, compared with $4.19 per share in 1954.

Earnings before federal and state taxes on income, which also reached a new high, amounted to $121,268,223, an increase of $17,924,921 over the previous high attained in 1954. Total dividends on the common stocks in 1955 were $2.60 per share compared with $2.40 in 1954. Dividends on the common stock and preferred stock were 53.6% of net earnings.

Sales for the year amounted to $866,425,772, an increase of $52,151,996 over the 1954 volume of $814,273,776.

The company's cigarette volume was substantially larger than in 1954. Despite a reduction in shipments of Camel cigarettes, this brand continued as the outstanding leader in the industry. Winston filter-tip cigarettes increased substantially in sales also. In November the company placed on the market Cavalier king-size cigarettes with an improved blend and in a new package. During the relatively short time that the Cavaliers were on the market in 1955, sales were higher than sales of that brand during the same period in 1954.

In 1955 filter-tip cigarettes accounted for about 20% of all cigarettes sold in the domestic market against 10% in 1954 and 3% in 1953.

At the close of 1955, the company's short-term borrowing stood at $38,000,000, a reduction of $31,000,000 from similar debt as of December 31st, 1954. This reduction was made possible by additional retained earnings and also by lower inventories of leaf tobacco. During the year, long-term debt was reduced by amortization payments of $5,000,000.

The company spent $5,573,648 for additions to plant and equipment during 1955, the larger part for new machinery for the manufacturing and leaf tobacco processing departments.

Based on 10,000,000 shares of common stocks, the book value per share amounted to $30.45 at the end of 1955, an increase of $2.51 a share for the year.

The outlook for early months of 1956 continues favorable.

Walworth Company

"As a long-time subscriber to your valued magazine, I would appreciate receiving late earnings data on the Walworth Company, please include working capital position and the outlook over coming months." R. R., Clearwater, Fla.

Walworth Company is the second-largest manufacturer of valves and pipe-fittings. It also distributes plumbing and steam-fitting lines manufactured by others.

Total consolidated net sales for the year ended December 31st, 1955, giving effect to the acquisition of three of four new properties in the latter months of the year increased to $51,600,000. This represented an increase of 48% over sales of $34,896,679 shown in 1954. The company's volume of business in 1954 was adversely affected by an eleven weeks' strike. Net sales of Walworth, excluding sales of new subsidiaries, were $45,600,000 in 1955.

Operations for the year resulted in a net profit of $2,354,141 contrasted with a net loss of $356,986 in 1954. In 1955 earnings were equal to $1.53 a share on 1,537,403 common shares, the average number of common shares outstanding during the year. In 1954 there was a loss of $656,986 or 48¢ a share on 1,358,758 shares outstanding.

Total current assets of the company at the end of the year,

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A Realistic Study Of the Chemicals

(*Continued from page* 85)

While the growth pattern for most other industries follows the growth of the population of the country and the advance in consumer buying power based on the rising wage scale, the chemical industry lifts itself by its own boot straps.

Up By Its Own Boot Straps

It grows because of the constantly expanding uses of its products and the development of new markets that did not exist previously. It also grows because of the steady parade of new products that over a period of several years develop a huge market potential. When the limits of growth of one product are reached the industry every year has one or two lusty "test tube babies" that grow into giants.

Since the war one of the fastest growing of products has been the plastic polyethylene, which now has an annual output of over 300 million tons, against 5 million tons a decade ago. This product is familiar in "squeezable" bottles and mixing bowls. Polyethylene started in a small way as an insulator for electric wiring and cables. Then houseware manufacturers took hold of it and volume grew steadily every year. It is seen in refrigerator trays, ice-cube buckets, waste baskets, clothes baskets and a host of other things. Industry uses it in carboys to hold chemicals. In the form of film it has become a competitor to cellophane in packing, especially for foods. Moldings are becoming larger and larger, which of course takes more material. Union Carbide is the largest producer. Others are du Pont, Spencer Chemical, and Eastman Kodak Co.

A New Polyethylene

Polyethylene is made from ethylene gas from petroleum subjected to pressures up to 15,000 pounds per square inch. Now there is a new type of polyethylene made at low pressures by the use of a catalyst that was developed in Germany. This type differs in its properties from the older type and is expected to develop important new markets of its own without competing much with the predecessor type. The process also lends itself to the development of other interesting new chemicals and plastics. Hercules Powder is one firm active in this field.

A new product in the plastic field that has enormous potential is isocyanate which makes a foam either soft enough to compete with foam rubber or rigid enough for structural uses. Makers include Du Pont, Allied Chemical and Monsanto Chemical Co. Although production last year was only around 1 million pounds it is expected to have a potential of over 100 million pounds annually. Du Pont alone is increasing its capacity tenfold in a $10 million plant to make 25 million pounds yearly.

Another group of products in the plastics field are the epoxy resins. Current volume of these is around 20 million to 30 million pounds annually but the potential again is considered to be 100 million pounds or more. Makers are Devoe & Raynolds, the paint firm; Shell Chemical Co. division of Shell Oil, Union Carbide, Dow Chemical, the Swiss firm Ciba and the Borden Co. They are important in paints, especially for home washing machines because they withstand alkalis and are extremely tough and hard wearing. Another important use is in dies to stamp metals.

Metals and Chemistry

A field not generally considered in the realm of chemistry is the area of new metals. Dow Chemical, for example, has long been the only major producer of the light metal, magnesium. Dow has had its troubles in developing methods for rolling and stamping the material on a large scale but now seems to be squared away. Volume of use is building up for consumer goods such as suitcases, for printing plates and die castings for automobiles so it now appears that Dow will begin to make some real money out of the venture (which has not been profitable) over the next few years.

The light metal, lithium, base for many new chemicals and perhaps for jet fuels is also the province of the chemical industry. Lithium has been widely heralded as one of the components of the "H"-bomb. Another little known metal, boron, found in borax, also is becoming important as a base for chemicals and may also find uses as a metal.

The new light metal, titanium, which is as strong as stainless steel with much less weight, is another chemical product. Important producers include du Pont and Union Carbide among the chemicals. Though its cost is still high and production exceeds demand, it is expected to have major long-term possibilities not only for military needs but in lightweight truck frames, railroad cars and plates for ships to replace stainless steel.

The new metal zirconium used by the Atomic Energy Commission is produced by chemical firms and also has important long-range possibilities, though they are still remote.

Nucleonics and Chemistry

One factor in the future of the chemical industry, that has perhaps not been sufficiently taken into consideration by investors, is the possible impact of atomic science.

In the midst of the recent speculative enthusiasm for atomic stocks and for any security in the atom field little notice has been taken of the fact that the two largest chemical firms, Union Carbide & Carbon Corp. and du Pont, may well have more atomic "know how" than most firms which are directly in atomics. Union Carbide has been running the well-known Oak Ridge Laboratories for years and has probably built more different types of reactors than anyone else. Carbide is also the leading processor of uranium. When and if atomic power plants become numerous, Carbide probably will be the outfit that does the delicate job of purifying the spent fuel. Du Pont has been the builder and operator of the Savannah River hydrogen bomb plant in the Georgia-South Carolina area.

It is difficult to say how soon any substantial profits will be earned by firms now actively preparing to build reactors. But it may be conjectured that when the atom becomes a profitable business the two biggest chemical firms and perhaps several others will be in the middle of the

(*Please turn to page* 118)

New York International Airport, now under construction. A typical example of the growth of dynamic Queens County.

(Port of New York Authority Fotos)

NEW DEMANDS FOR GAS

Annual Report of The **Brooklyn Union GAS** Company shows continued gains

Like the thriving community it serves, Brooklyn Union is growing rapidly. In fact, during 1955 records were made in firm gas sales, in revenues, and in net income.

The chief contribution to this highly successful year was the tremendous demand for gas as a heating fuel.

Customers responded in large numbers to Brooklyn Union's second rate reduction since natural gas was introduced in 1951. And sales of gas heating equipment during 1956 are continuing at an even more accelerated rate—especially in the replacement of other automatic fuels. Less spectacular but equally significant were increases in virtually all other uses of gas.

This outstanding record would not have been possible except for the fine men and women who make up The Brooklyn Union family. We are indeed gratified that almost 30% of them are participating in the company's growth through stock ownership.

Brooklyn's future waterfront.

STATEMENT OF GROWTH

	1955	1954
Net income	$5,039,400	$4,649,700
Per share	2.70	2.50
Dividends paid per share	1.80	1.60

You may obtain Brooklyn Union's annual report by stopping in at our Main Office or by writing the Secretary of the Company.

The **Brooklyn Union GAS** Company
176 Remsen Street Brooklyn 1, N. Y. TRiangle 5-7500

A Realistic Study Of the Chemicals

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scramble. As a sideline, chemical firms are primarily "science companies" and active in all lines of research. The new knowledge of the atom is also certain to mean new chemical discoveries and new processes in the future. Already thought is being given to use the heat from reactors plus the still mysterious properties of radiation to modify chemical processes.

All in all, the chemical industry is a prime growth field. However, recent rises in the stock market, on top of gains registered in the preceding years, have resulted in many of the major entities discounting a good deal of the growth and prosperity that are in store for the intermediate term.

—END

Continuing Industrial Expansion

(*Continued from page* 75)

provided a fat margin of cash by which to finance higher capital outlays; it will probably continue to do so in the foreseeable future.

3. Partly as a result of high income and high depreciation allowances, and partly as a result of wartime accumulations of liquid assets by corporations, corporate liquid wealth has been at very high levels throughout the postwar years. The net working capital of U. S. corporations—current assets less current liabilities—now exceeds $100 billion, for the first time on record. Relative to volume of sales and earnings, working capital has been high ever since the early postwar boom. This too has facilitated capital outlays.

4. Throughout the past fifteen months, business sentiment has been at phenomenal levels of confidence (excepting only a few weeks following the president's heart attack). Business is now willing and anxious to expand because it sees ahead of it a period of relative stability in labor-management relations, a period of sound fiscal policy, a minimum of interference in business by government, reasonable (or at any rate more-reasonable) taxes, and as a result of all of these, relatively high securities prices which will permit them to obtain additional capital on favorable terms. Confidence is certainly a key word in any explanation of why business is spending so much on the future.

5. With all the prosperity of American business in 1955 and 1956, it is nevertheless true that American markets have become increasingly competitive, and are likely to become more so in the near future. The very high current rate of investment in new capacity is adding increasing increments of supply bearing on all markets, and pricing and merchandising practices are intensifying the competitive struggle to survive. In these circumstances, cost reduction becomes a strong stimulus to the purchase of new, labor-saving equipment. Industry after industry has begun to develop its own automatic equipment to combat the persistently rising trend of labor costs in recent years. This trend, too, will doubtless continue into the foreseeable future.

6. Finally, the fantastic pace of American research and development in pure and applied sciences is steadily revolutionizing the technological environment of American business. Research outlays now total something like $4 billion per annum, of which the great bulk is being conducted in the private laboratories of major U. S. corporations. Each year of such research effort generates a whole new range of new products, and the exploitation of these product developments obviously involves investment in plant and equipment. It is a widely used rule of thumb that for every dollar spent in industrial research, something between $3 and $5 will eventually be spent for plant and machinery for the production of a new or radically altered product. And no corporation, regardless of the size of its own research effort, can afford to ignore technological improvement in products and processes when they come along. To do so is to commit corporate suicide.

These are the major reasons for the present wave of heavy capital spending. They are the reasons that account for the present $35 billion level of plant and equipment outlays. But on the horizon there looms still another influence, that could well drive outlays even higher.

In the past year it has become increasingly apparent that the U. S. is engaged in a deadly earnest industrial and technological race with the Soviet Union. In this race, the outcome is now seriously in doubt, and the consequences of losing it may be devastating.

In the past, it has been habitual with Americans to write off Russian productive progress as a sham and deceit, and it is true that for many decades Russian progress was slow, by American standards, and much of it was little more than publicity. But the keenest students of Russian industrial progress are no longer dubious. The available figures from Russia's five-year plans used to be farcical; they are no longer so. In aerodynamics, in atomic physics, in electronics, in general engineering, Russia can apparently now call on a range of talent and knowledge second only to our own, and even our advantage is growing slim. The days when the Soviet Union could be written off as an anachronism of the industrial age are clearly over.

Soviets Closing Gap

By all the apparent evidence, Russia is experiencing an industrial wave of technological advance equal to our own, and in some respects exceeding it. Russia produced 4.5 million tons of steel in 1928; in 1954 it produced 45 million tons; in 1960 it hopes to produce 66 million tons, or about half of what American capacity will be. Moreover, unlike the U. S. economy, it produces at capacity all the time (there is no business cycle in Russia) and devotes a substantial percentage of its output to reinvestment in heavy industry and armament (there is also no comparable automobile industry of any size in Russia).

Approximately the same relationship between the U. S. and Russia that appears in this steel comparison applies to electric power, and a number of other basic economic dimensions.

Perhaps more significantly, the rate of growth of Russian industrial capacity appears to be somewhat faster than our own, reflecting, of course, the fact that the Russian economy is directed to-

(*Please turn to page* 120)

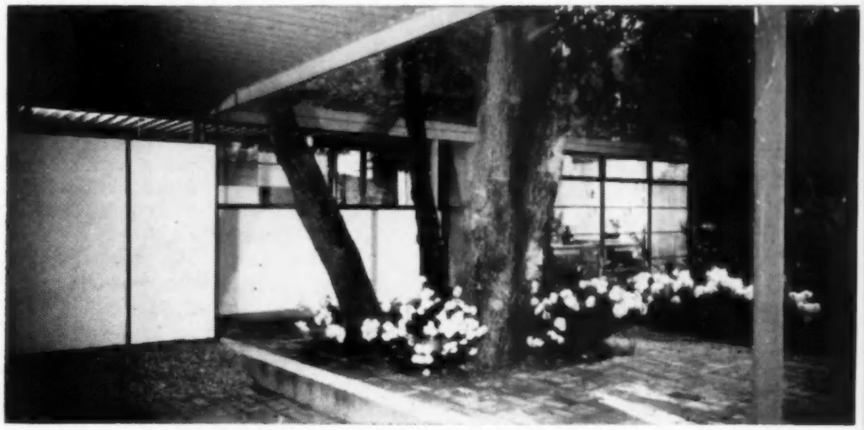
"I built this house of steel for many reasons..."

A young designer tells, in his own words, why steel is the most practical home-building material

Pierre Koenig

GLENDALE, CALIF.— "There is no getting around it; by using steel as the basic building material you can get so much more out of your home." That's the opinion of Pierre Koenig, the youthful designer of the "House of Steel," located in the Sierra Madre foothills just eight miles north of Los Angeles.

"This home is light and spacious, with all the strength, durability, warmth, beauty and economy desired for modern living. And *steel* makes this possible."



How Koenig used steel

"To begin, steel made it possible to use wider expanses of glass, so that the rooms don't end at the windows but literally continue into the garden—and even to the hills beyond. The patio window of the living room is actually a sliding glass door, framed in steel and set in a steel track. Slide the window open and you step directly on to the patio—a convenience for entertaining.

"It took just *two* days to erect the steel frame," Koenig explains. "Then the steel roof deck and ceiling and exterior walls went into place. I used galvanized steel for the exterior wall, for ducts of the forced-air heating system, and for flashing at the roof line. The attached carport roof also is of galvanized steel."

Why Koenig chose steel

"Of course, I used steel so extensively for many reasons. As you know, it has great strength. It's durable. It won't crack, splinter, or rot. It's fireproof. And it doesn't lose its shape, size, or character. In fact, you can rely on steel both when you put it up and when you live with it.

"What's more," Koenig says, "by using steel in a variety of ways, you simplify construction, cut building costs, reduce maintenance expenses. Proper types of steel take and hold paint beautifully, giving your home great warmth and friendliness."

Steel is versatile

"Few people realize how much steel is used in their homes—and what an important role it plays in modern living," Koenig observes.

In fact, it is estimated that in the average three-bedroom home of conventional construction there are approximately 650 pounds of galvanized steel sheets used. Steel is used extensively for heating-and-air-conditioning ducts, gutters, downspouts, flashing, windows, baseboard heating panels, roofing, siding and many other integral parts of the home. And steel has many applications outside the home itself—for garage doors, storm doors, sash and screens, window wells, lawn edging, fencing and others.

Which steel is best?

The many types of steel used in Koenig's "House of Steel" and in more conventional home construction are made by National Steel.

Coated steels such as Weirkote galvanized steel and Wierzin electrolytic zinc-coated steel—which are produced by National's Weirton Steel Company—are especially suited to home construction applications.

Light steel framing, made by National's Stran-Steel Corporation, is another National Steel product increasingly used in home, apartment, commercial and industrial building.

National's role

These types of steel are, of course, just a few of the many steels made by National Steel. Our research and production men work closely with customers in many fields to provide steels for the better products of all American industry.

At National Steel it is our constant goal to produce still better and better steel—America's great bargain metal—of the quality and in the quantity wanted, at the lowest possible cost to our customers.

SEVEN GREAT DIVISIONS WELDED INTO ONE COMPLETE STEEL-MAKING STRUCTURE

Great Lakes Steel Corporation • Weirton Steel Company • Stran-Steel Corporation • Hanna Iron Ore Company • National Steel Products Company • The Hanna Furnace Corporation • National Mines Corporation

NATIONAL STEEL CORPORATION

GRANT BUILDING PITTSBURGH, PA.

Continuing Industrial Expansion

(*Continued from page* 118)

ward investment by government fiat, and consumption levels are deplorably low. According to the best available statistics, per capita standards in the U.S.S.R. are about one-eighth as high as in the United States.

Beyond the advantage of central direction, the Russians have other key advantages in the race for industrial supremacy. Since they are following the lead of the United States, they are in a position to copy, which is a great time-saver in industry as well as in other fields. And because their investment in some industries is still relatively new, they can convert to new processes with a minimum of loss. In electric power, for example, the conversion of American utilities to atomic energy sources will necessarily be slow and halting; involved are crucial considerations of relative cost, and of destroyed investments. In Russia, no such problem will arise.

Increasingly, in the past year, it has become apparent that the industrial race with Russia is intensifying, and that it would be so serious as to be inconceivable, to fall behind Russia. This suggests the possibility, unpleasant though it may be, that whenever normal American incentives toward investment which are provided by the free enterprise, marketplace system, become too weak to maintain the present pace of expansion, other incentives will have to be found. These other incentives need not be alien to American philosophy, and they may be required for only short periods. Something like an "added incentive to invest" has already appeared in the form of government stockpiling of machine tools. It is not altogether unreasonable to expect that within the next decade the role of government in stimulating and expanding the pace of industrial growth will increase severalfold. Stockpiling of tools, tax concessions, government-supported industrial research, and outright subsidization may be necessary evils in the near future, to avoid the greater evil of losing out in the world race for industrial supremacy. —END

Insurance Stocks

(*Continued from page* 96)

The same dollar investment in Dow, duPont, General Electric and I B M would show capital gain of $25,440 and dividends received of $3,931.

Why this fabulous performance? Basically because life shares had undergone a long period of poor results during the thirties and early forties and consequently had been grossly neglected. Then, too, there were few really marketable issues, most of those currently traded were totally inactive then. Most important, however, was the complete lack of understanding that investors in general had of this industry.

The performance, however, had not gone unnoticed for it was plainly noticeable last year that many dealers who heretofore had never ventured into the field were busily informing investors—who also had never owned life stocks before—of the past results and implying that a similar picture of profits was ahead. The favorite method was to show a table like that (above), showing the results of a theoretical investment several years ago. One "ad" read, "Not one man in a thousand knows the profit potential of life stock", — that speculators were to rush in was a foregone conclusion and last summer saw enormous spurts in all leading issues. Unlike the patient investor who recognizes the long term advantages of life stocks, the short term speculator was eager to reap fast profits. The bubble burst on news of the President's heart attack. Travelers dropped from 123 to a low of 76, Aetna from 292 to 188 and Connecticut General from 320 to 232. These lows were not immediately touched but were reached gradually, the nadir occurring about two months ago.

The future still looks exceedingly bright. First of all the industry continues to grow by leaps and bounds because of greater population, greater disposable income and greater need for creating estates for tax purposes. Projections show a doubling of insurance in force every ten years. The stock companies should continue to grow at a faster rate than the mutuals so that the average stock company should double its in force business in every eight years or so.

Secondly, mortality experience should further improve as new medicines are developed. The past record has been most impressive. Since 1915 mortality has been cut 40%. The mortality table most commonly in use is already 15 years old.

Thirdly, the effect of the leverage of volume and interest rates cannot be overemphasized. Most policies now written are actuarilly based on interest assumption of 2½% and 2¾% while the average rate earned on assets averages out to about 3¼% after taxes. As new policies are put on the books, the average rate required to maintain these reserves decreases. For example in the period 1949 to 1954 (current figures not yet available) the dynamic Franklyn increased its ordinary insurance in force 139%. At the end of 1949 the average interest rate required to maintain life reserves was 3.37%, and the company earned 3.11% on all assets (roughly 10% larger than total reserves). By the end of 1954, the reserve rate requirement was 3.19% and the company was earning 3.41%. In other words requirements were down 18 basis points while yield was up 30 basis points. With assets fast approaching the $400 million mark, the ½% differential looms larger, and the leverage becomes plainly apparent since capital funds are only 10% of total assets, and all excess investment income accrues to the stockholders' interest.

Do the life stocks look good? Does the investor pay too much for all the growth that lies ahead —as well as the potential profits? I think not, for the Lincoln National stock, for example, is selling at 230, capitalizing last year's earnings of $18.78 a share at only 12.2 times earnings. The Aetna Life earned $16.42 and sells at 212, Connecticut General earned $20.23 and is available at 265. These companies—to cite only the three leaders—still appear very attractive.

THE FUTURE

The successful investor must be as aware of trends affecting an industry as the men managing the companies in the industry. Extreme selectivity must be the watch word. The next decade will

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Insurance Stocks

(*Continued from page* 120)

bring many changes in the industry. There are problems literally screaming for solution and the companies that come up with the fastest answers should be the ones that will perform best in the market. New coverages will come forth in part due to atomic energy; new policies calling for lower commissions in the fire and automobile field will be needed to counteract the severe direct-writer competition; tightened underwriting practices will be needed as state after state jumps on the compulsory auto liability bandwagon; increased use of deductibles and the increased acceptance of the packaged home owners' policy will prevail in the forthcoming years.

In the life field the growing importance of creating estates for tax purposes, the development of new non-cancellable accident and sickness policies, the expansion of the major medical coverage, are all fertile fields of growth for the alert management. —END

International Telephone & Telegraph

(*Continued from page* 94)

tional effort in this division. The division has been making its own 21-inch TV color receiver, and as the color TV market goes into high gear, the division should be in an excellent position to capitalize on the growth in this field.

Catching Up in TV

If success is achieved through Capehart-Farnsworth in the TV field, it will represent the first time that ITT has had a substantial profitable interest in this important consumer-goods field, which seems likely to enjoy substantial growth in the future. During the 1940's, ITT overlooked its opportunities in TV and did not get the full benefit of the boom in TV receivers during the period after 1950. However, in view of the excellent technical skills of the ITT management, there is no reason why Capehart-Farnsworth should not be developed into a front-runner in the TV field, particularly if proper emphasis is given to the marketing problem.

In chalking up a substantial gain in net income last year, ITT was able to overcome unsatisfactory results in its telephone and telegraph subsidiaries' operations. Inability of the latter to obtain satisfactory rates during a period of rising costs—a common problem in the public utility field —meant that the earnings of these subsidiaries were low, in relation to the large investment which they represent.

Gross operating revenues of the telephone and telegraph units totaled $41,363,714 against $39,-979,743 in 1954. The manufacturing divisions thus again increased their ratio of the consolidated sales, and now account for nearly 90% of the total. Consolidated sales of the manufacturing divisions last year showed a good gain.

On balance, ITT's moves have been well-considered and progressive. The management has successfully sought to offset the less assured outlook for telephone and telegraph units, which once accounted for the greater part of its earnings, by channeling more of its assets into manufacturing.

In 1945 and 1946, ITT sold its Spanish holdings and some of its Argentine properties. The sum realized in cash—close to $200 million—was used to pay off bonds and build modern manufacturing plants.

This program resulted, for a time, in some dissatisfaction among stockholders. A compromise was reached and a new group was appointed to the board. General Harrison came to ITT from American Telephone & Telegraph as president, while Sosthenes Behn became chairman of the board.

Emphasis Now On Electronics

One detour on the upward path was the investment in the Coolerator Division. At that time, with large war-created backlogs, the appliance industry appeared to have brilliant prospects, even for the smaller independents. But the appliance business has evolved into a hard-driving, slugging type of industry, in which only the largest units, with complete lines of appliances, are in a position to market their products profitably.

The decision to write off the Coolerator investment was undoubtedly a wise one. To have held onto this losing venture would have required very substantial additional investments to provide a full line of appliances. Even that approach would not have assured satisfactory profits in the face of the price-cutting practiced by General Electric, Frigidaire and other major producers. The problems which Avco Manufacturing has been meeting in establishing itself as a profitable producer of a full line of appliances shows clearly that new appliance producers may have to pull their belts in tightly for years in order to survive.

ITT, back in 1953, had grandiose plans to become a major producer of appliances and evinced interest in York Corp., second largest of the across-the-board manufacturers of air-conditioning and refrigeration products. It is believed that nothing came of the plan to acquire York because of the fancy price tag on that property, which now goes to Borg-Warner.

Coolerator Setback

The ITT plan to enter the field of electronic business equipment, either through a merger with Underwood, or on its own, appears to enjoy better prospects for success. This field is in its infancy. The basic requirement is a strong research organization. ITT is blessed with this, and further has the advantage of being able to write off some of its research costs through defense contracts.

The three principal domestic manufacturing subsidiaries are Federal Telephone & Radio, Capehart-Farnsworth and Kellogg Switchboard & Supply. Kuthe Laboratories, Inc., of Newark, N. J., is the largest maker in this country of hydrogen thyratrons, which comprise the heart of modern radar.

Kellogg Switchboard makes and installs telephone equipment for the independent telephone operating industry in this country, and for customers abroad, as well as for the Government. Its sales continued upward last year. Its position and sales outlook have been strengthened by the settlement of the Government's anti-trust suit

(*Please turn to page* 124)

America's New Railroad

Santa Fe

$102,000,000[00]

for Progress

Santa Fe is building for the great future growth in America's industry and population

America's New Railroad has set aside $102 million to make itself even newer in 1956.

That's the largest sum Santa Fe has ever budgeted for capital improvements in a single year.

It figures out to over $279,000.00 per day for 1956.

This is an important amount of money—but still more important is what's going to be done with it. We'd like to tell you a few of the details.

5,210 New Freight Cars

The biggest chunk is for 5,210 additions to our fleet of freight cars.

We've ordered flatcars, boxcars, gondolas, refrigerators, covered hoppers, dump cars, cross hoppers, DF loaders and "piggy-back" cars.

Among them are many specialty cars—such as the 200 new mechanical refrigerators that can keep 127,500 pounds of frozen food at a steady temperature of 5° below zero or colder on a trip across the continent . . .

And the 50 new air-slide cars that can carry 50 tons of loose flour from the mill and dump it right into the baker's hopper.

Many of these cars will not only benefit Santa Fe shippers, but also other shippers as well—because they will enable Santa Fe to keep its contribution to the nation's car pool at a peak level. And that helps to ease the freight car shortage for everyone.

New Hi-Level El Capitan

Santa Fe will put six new *El Capitan* trains consisting of entirely new-type passenger cars into service this summer—the first trains of their kind. They will be made up entirely of Hi-Level cars—unique, two-story units that carry baggage on the first floor and let passengers do their living upstairs.

All passengers on our new *El Capitan* (all-coach streamliner between Chicago and Los Angeles) will ride at dome-car height—well above the clickety-clack of the rails—where they'll get a smoother ride and a more sweeping view of the historic Santa Fe country.

Roadway and Other Improvements

We're laying 300 miles of new track—most of it continuous welded rail that assures quieter, smoother riding.

We are planning to expand freight yard facilities all along our line, provide increased grade protection for motorists, and install more radiophones between caboose and locomotive on our transcontinental freight trains in 1956.

We're modernizing 1,000 boxcars, putting new insulation in older refrigerators, laying new steel floors in gondolas, and improving existing equipment so it can serve our shippers better.

New Diesels Ordered

And we've ordered 80 new Diesel units for 1956 delivery—to make Santa Fe America's largest completely Dieselized railroad.

All this progress comes from Santa Fe dollars—*earned* dollars—not a single penny comes from taxes you pay.

You'll be noticing lots of activity on the Santa Fe this year!

Santa Fe System Lines

International Telephone & Telegraph

(*Continued from page* 122)

against A.T.&T. and its subsidiary, Western Electric. Under the consent decree, many patents of these companies now may be used by others without royalty payments.

ITT is in a strong financial condition. Cash and Government securities of the parent company were $39.3 million last December 31, after repayment of $10 million of short-term bank loans. This compared with cash of $34.3 million at the end of 1954.

Book value—over $50 a share —is substantially above the market price. But it is the improved earning capacity of this book value that is attractive at the present moment. It is noteworthy that other electronics producers' shares generally sell well above the book value, particularly if they have good growth prospects in defense and in civilian business, as ITT appears to have. —END

For Profit and Income

(*Continued from page* 113)

sales at the 1955 rate. Profit last year was $9.33 a share. It may gain 25% or so this year. Dividends ($2 regular rate) should exceed last year's $3.25 total. The company also is in guided missiles and has substantial civilian transport-liner bookings. These considerations explain recent strength in the stock. Around 81, over-valuation is not evident.

Color TV

Because it will still be expensive for some time to come, color television is not going to boom any time soon, either in sales of sets or in the proportion of programs telecast in color. When volume is reached, it is likely to be a highly competitive, price-cutting business, as heretofore in standard sets. On a longer-range view, profit potentials look better in the telecasting end—Columbia Broadcasting and American Broadcasting-Paramount—than for set manufacturers.

Vanadium

The Vanadium Corp. produces a variety of alloys used principally in the booming steel and aluminum industries; and mines and processes uranium. With facilities expanding, profit rose to $4.65 a share last year, from 1954's $2.50. A strong further gain seems probable this year, possibly to $5.50 or more a share. The $2 dividend might be raised or supplemented with a yearend extra. Around 47, in a 1955-1956 range of 48¼-35⅛, the stock is not unduly high, is in a stronger technical position than most other non-ferrous metal stocks, especially coppers, and may well work materially higher over a reasonably extended period of time.

—END

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reserves. This figure does not include over $56 million charged against current income for exploration work essential to the maintenance and improvement of its position in this vital phase of operations. Capital expenditures for Shell and the others may be expected to rise with the passing years.

When it is considered the petroleum industry is vital to our peacetime existence and indispensable in the event of war, it becomes easier to understand the so-called "tax breaks" accorded the industry. A replacement reserve must be recognized in all oil-producing countries as a legitimate charge against profits, thus curtailing the tendency of taxes to confiscate the capital needed for reinvestment. In our own country, this method of accounting is covered by a statutory depletion allowance which has contributed in no small measure to meeting the heavy expense of new exploration.

Chances For A Price Rise

As previously noted, oil producers, especially the domestic companies, would like higher prices for their products. It is a fact that there has been no general increase in the posted price of crude oil since June of 1953. Not unlike the steel industry, numerous oil producers feel they must attain price increases to enable them to press the search for oil.

And the cost of locating new oil sources has been rising steadily, resulting in erosion of earnings to many companies. Depletion charges on new oil, of course, have followed the same upward course. Since the industry has managed to keep inventories in fair balance and demand has been at high levels since the end of the 1954 economic recession, prospects for a price increase would appear to be fairly good. At the very least, they are better than in the closing months of last year, when the consensus showed little sentiment for an increase.

Already this year there have been some scattered increases. On February 1, Continental Oil Co. announced a rise of a half cent in tank-wagon prices of its regular and premium gasoline in Texas. This move was followed several days later by Humble and Gulf Oil.

It is noteworthy that the price hike came at a time when gasoline inventories had been subject to the winter-season buildup. With the big motoring season ahead, pressure on gasoline prices should be eased considerably. If higher gasoline prices can be put through in the off-season, chances would appear to be even better for a rise as the season of heavy consumption gets underway.

High Price of Research

We have noted the huge capital investment budgets of a number of the top oil companies. A substantial part of the spending is for research, which is the key to progress in this business. It has paid off handsomely for nearly all of the companies, taking them far beyond the field of producing, refining and marketing petroleum products.

An outstanding success story in this connection is the 50-50 company formed by Gulf Oil and B. F. Goodrich, known as Goodrich-Gulf Chemicals, Inc. Its first venture was to bid in Government-

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"In a Nutshell"

Sales and assets of Pittston and its subsidiaries reached new highs in 1955 while net earnings on common stock, after preferred dividends, amounted to $3.60 per share. In the prior year, excluding extraordinary items of profit on the sale of capital assets, and adjusting to a comparable 1955 basis with respect to preferred dividends and common shares outstanding, net earnings on the common stock amounted to $1.44 per share.

The resurgence in the demand for bituminous coal has resulted in greatly increased tonnage and earnings in Pittston's coal division. Other operations — petroleum products, natural gas, trucking and warehousing — are continuing at capacity levels, and all indications point to another year of continued growth and improved profits.

— from "The President's Letter" to Pittston Stockholders in the Annual Report for 1955.

HIGHLIGHTS FROM 1955 REPORT

	1955	1954
Barrels of petroleum products sold	40,195,249	34,067,414
Net tons of coal sold	10,945,859	8,131,606
Total revenue	$205,798,315	$159,735,766
Net income	$ 3,105,023	$ 1,979,416*
Total assets	$121,458,752	$103,665,084
Common stockholders equity	$ 34,184,392	$ 29,225,911

*Includes profit on sale of capital assets.

Copies of the Company's ANNUAL REPORT are available on request.

THE PITTSTON COMPANY

250 Park Avenue, New York 17, N. Y.

PITTSTON SUBSIDIARIES

Clinchfield Coal Corporation, Dante, Virginia • Compass Coal Company, Clarksburg, W. Va. • Lillybrook Coal Company, Lillybrook, W. Va. • Amigo Smokeless Coal Company, Lillybrook, W. Va. • Metropolitan Petroleum Corporation, New York • Maritime Petroleum Corp., New York • Globe Fuel Products, Inc., Chicago • Metropolitan Coal Company, Boston • Pittston Clinchfield Coal Sales Corporation, New York • Clinchfield Fuel Company, Spartanburg, S. C. • Davis-Clinchfield Export Coal Corporation, New York • Routh Coal Export Corp., New York • United States Trucking Corporation, New York • Independent Warehouses, Inc., New York • Tankport Terminals, Inc., Jersey City • Valentine Tankers Corporation, New York • Valentine Transportation Corporation, New York

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owned rubber facilities at Port Neches, Tex. These plant facilities together with working capital involved a total outlay of about $50 million, and include a half interest in a 190,000-ton-per-year butadiene plant and a synthetic rubber plant with a capacity of 90,000 long tons per year. The operation has been going full tilt since the takeover.

Petroleum-based chemicals are getting major attention of the oil companies, especially those which stress research. A leader in this development is Phillips Petroleum Co., which is banking heavily on plastics, particularly its Marlex polyethylene. Phillips also has a sizable stake in synthetic rubber, carbon black and synthetic fertilizer. Such products contributed importantly to record sales and profits achieved by Phillips in 1955.

Firms such as the Texas Co. have made it clear that they intend to maintain an important position in petroleum research, while continuing intensive development in other broad areas, notably nuclear energy. A separate research and technical department was created by Texas Co. in late 1954 to coordinate expanding research activities. Facilities at the Beacon, N. Y., laboratories have been modernized and considerably expanded.

Socony also will have heavy outlays for research. Research, among other things, has enabled Socony to make significant advances in its refining processes. With its "Thermofor Catalytic Reforming" it can efficiently process napthas from high-sulphur crudes and from low-octane cracked gasolines. There are innumerable illustrations of this trend, which adds up to getting more of these valuable products from each barrel of crude oil.

There is every indication that the major petroleum companies will continue to derive ever greater benefits over the next decade from such products as resins, plastics, synthetic rubber and agricultural chemicals.

Growth of Natural Gas

If we have not gotten around until now to citing the tremendous significance of the upsurge in natural gas it is because the entire field was canvassed in the Magazine of March 3. It is worth noting here, however, that of the nearly $6 billion budgeted for capital items by the industry for this year, over $1.2 billion (or more than 20%) will be spent for natural gas.

This astronomical sum is being budgeted for an industry that already has enjoyed amazing growth over the last decade. It has been a period of construction covering thousands of miles with pipelines, developing huge underground storage reserves and the discovery of substantial new reserves. Reserves of natural gas now approximate 211 trillion cubic feet, enough for about a 20-year supply. New discoveries, of course, may be counted on to expand reserves, thanks to the kind of expenditures that the industry is prepared to make to accomplish that end.

Many of the leading petroleum producers have a vital stake in natural gas. Phillips Petroleum, as an example, last year sold 1,728,873,000 cubic feet of natural gas, a gain of more than 19 million cubic feet from 1954. Other oil companies with large natural gas reserves include Cities Service, Humble, Standard Oil of Indiana and Texas Co.

Then, of course, there are the pipeline companies, notably Mississippi River Fuel, Southern Natural Gas, Tennessee Gas Transmission, Texas Eastern Transmission, Texas Gas Transmission and Transcontinental Gas Pipe Line.

In addition, there are numerous integrated systems and retail gas utilities. All four types were commented on in the Magazine of March 3.

In connection with the natural gas industry, it is worth noting that recently there was some decline in new drilling due to uncertainties over the regulation of independent gas producers by the Federal Power Commission. The veto this year by President Eisenhower of the Harris-Fulbright Bill was a keen disappointment. He emphasized that he favored the act in principle, hence passage of a new law is likely, but not before 1957.

Looking Back

Ere proceeding to assay the outlook for the petroleum industry in 1956, let us scan the results of 1955:

It was, all in all, the best year in the history of the industry. New records in just about every branch of operation and sidelines were established. Demand for all oil products climbed to a new peak in the domestic market —nearly 8.4 million barrels a day, a rise of 8% from 1954. Domestic production, including natural gas liquids, was at a new high of 7,495,000 barrels per day, an increase of 6.5% from 1954. Increased operating efficiency and slightly higher prices for certain oil products more than offset higher costs of labor, material and transportation.

The year also was important, from the standpoint of the investor, for improved earnings; depletion and depreciation charges against operating costs enabled the business to finance its record capital expenditures with little recourse to bank loans and public financing.

The year also will be remembered, especially within the trade, as marked by a rising controversy over the level of imports. Failing in their attempts to get legislation that would curb oil imports, those who produce domestic oil exclusively and the coal industry were able, however, to get an amendment to the International Trade Agreements Act. This provides for some restriction on imports if they should exceed significantly the ratio to domestic output established in 1954.

Looking Ahead

For 1956 (and beyond), the outlook for producers of such fossil fuels as oil and natural gas is good, although reports from operators indicate a shift in drilling toward deeper areas and a higher percentage of "wildcats," which should have an impact on costs. Total drilling for the year (including Canada) is forecast at 58,000 wells, against somewhat less than 57,000 last year. Exploration, of course, figures to be stepped up sharply if crude prices move up. An increase in crude prices should come sometime this summer. New wage increases in the industry and another round

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of wage increases in industries such as steel (which would, doubtless, bring higher steel prices for the oil people) could trigger the boost. The industry probably could justify a 25-cent price rise.

Drilling in the offshore areas (California and the Gulf of Mexico areas) can be expected to rise appreciably. The Rocky Mountain region also may be expected to see stepped-up drilling. New fields and important extension of established fields may be looked for in the Williston Basin area.

Expanded drilling will be needed to support the growing consumption of oil. While trade estimates, generally, look for a 4% rise from 1955, the figure could be even higher, depending, of course, on the level of general business activity. It hardly seems likely that the 8% rise registered for 1955 will be duplicated.

As the spring season approaches the warmer weather that brings on heavy motoring, inventories are in fair balance. Of course, this also is a time of declining demand for heating oil. The severe winter behind us was marked by heavy demand.

This also is a time of declining demand for heating oil. Heavy consumption in January of this year tapered off in February as somewhat milder weather came to the populous East.

For the Investor

At the outset of this article attention was focused on the foreign situation, so crucial to the petroleum industry. It doubtless has caused innumerable investors to forego commitments in oil issues. And not a few must have sold such stocks out of fear of war in the Middle East or political machinations by the present government in Egypt to depose Western interests in the oil-rich Arab regions.

Barring such a war or diplomatic upset, it is quite likely that petroleum issues will turn in an outstanding performance in 1956. Anticipation of higher prices for their products and the assurance of good earnings (with or without price increases) should encourage investors.

Since there is little likelihood of achieving stability in the Middle East over the near term (peace between the Arabs and Israel appears remote, and the Soviet Union has become a factor to reckon with in the Middle East), prospects would appear to be brightest for the domestic companies. Barring a crisis (or worst) in the Middle East, the giant international oil producers also may be expected to show earnings gains over 1955 which, in turn, was better than 1954 results.

Gulf Well Situated

Among these giant companies, Gulf Oil would seem to be best situated, as far as its foreign holdings are concerned. The big Gulf stake is in Kuwait, which is hard by Iran and somewhat removed from the Arab pressures on Israel. Companies with tremendous interests in the most sensitive areas are Standard Oil Co. (New Jersey), Texas, Socony and Standard of California. The fate of their Middle East interests is in the hands of the diplomats.

While the oil companies, by and large, can scarcely be claseed as laggards, it is a fact that until late 1955 they were not abreast of the strong stock market advance. Stimuli now coming to the fore—likelihood of price rises, growing demand for products, unusually attractive profit margins and benefits from diverse activities—serve to make many of these issues appealing.

Cited at the outset of this article as a growth industry, the yields are rather typical of stocks in that category. Of the companies included in the table accompanying this story, only one does not pay cash dividends. The others provide yields that range from a lean 1.2% to a rather generous 4.8%. The attraction of the oils rests primarily in the opportunities presented by many for capital gains and not in dividend returns. Moreover, it must be clear from the foregoing that most oil companies will have great need of cash resources to carry on the expansion of supply and demand for several years to come. —END

Communist Efforts To Transform China Into An Industrial Power

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however, the Russian assistance, most of which the Chinese are paying for by deliveries of food and raw materials, is considerably less than the assistance given by the United States to Nationalist China during the first postwar years.

As will be seen from the accompanying table, the First Five-Year Plan calls for the doubling of coal and cement production and the trebling of steel output. Gross industrial output will be about doubled, and if and when finished, the Plan will place Red China in about the same position as an industrial nation as the Soviet Union was in 1928, when the First Russian Five-Year Plan was launched. The tempo of industrialization is somewhat faster than that undertaken by India during her Second Industrialization Plan.

Manchuria and North China as Future Industrial Centers

The Chinese Reds are concentrating most of their new industries in two areas, Manchuria and North China. The latter stretches some 200 to 500 miles southwest of Peking. The two industrial centers will correspond roughly to the Donbas and the Ural industrial areas in the Soviet Union.

In Manchuria the industries are based on huge strip-coal mines at Fushun and steel mills in Anshan, close to the ancient city of Shen-yang (Mukden), which has grown into a metropolis of about 2½ million people and which now has the first Chinese factories producing milling machinery, pneumatic tools, and electric cable and wire. Both the Fushun coal-mines and the Anshan steel works were developed by the Japanese in the early 'twenties, and greatly enlarged during the Second World War. But M. Guillain reports that last fall he found in Fushun "a new aluminium factory and coal mines fitted out with Russian tools." In Anshan, old Japanese factories have disappeared and, instead,

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Communist Efforts To Transform China Into An Industrial Power

(*Continued from page* 128)

"the hundreds of foreign visitors are shown model installation—a seamless steel tube plant, rolling mills and great automatic furnaces—all equipped with Russian machinery."

Another old city, Harbin, has grown to about 1½ million and has become the center of the heavy equipment industry. In near-by Changchun, the Chinese are finishing their first automobile factory, which later this year is scheduled to produce tractors and a kind of four-ton truck.

The North China area is based primarily on the rich coalfields of Shansi, which stretch between the cities of Taiyuan and Sian (Siking). All larger cities in this area are to have new thermal power stations. Taiyuan is the site of a heavy machine plant now being built. Moreover, the whole industrial area is planned to draw on local industrial materials, which include cotton, iron ore, and petroleum, as well as raw materials from China's Far West, the province of Sinkiang.

Sinkiang—The Storehouse of Mineral Wealth

Sinkiang and the neighboring provinces of Kansu, Ningsia and Tsinghai have been called the secret heart of Asia. The presence of large petroleum deposits in Sinkiang has been known for some time, but the Russian and Chinese prospecting parties which have been feverishly scouting all over the contryside, are reported to have found iron ore and non-ferrous metal deposits. The Yumen oilfields in Kansu already in production, are expected to be reached early next year by the "Chinese trans-continental railway." According to M. Guillain, a new railway is being mapped out for the boggy hollow of Tsaidan west of lake Koko-nor. In this huge basin, "the Chinese believe they have found their El Dorado. They are making great clamor about the sensational discoveries made there recently—abundant oil, manganese, lead, copper, and precious metals."

The key city to China's Far West, much like Chicago is to our own Middle West, is Lanchow, which in the last few years has grown into a bustling "frontier town" of over a million people. Another city to remember in the rapidly changing economic geography of China is Paotow, in Inner Mongolia, where a large steel center is being born.

Yangtze Valley and South China

While Manchuria and North China are humming with activity, relatively few new projects are reported from the Yangtze Valley region. Except for the wartime capital, Chungking, which is to produce railway rolling stock, and Wu han, which is to have steel mills, the Yangtze valley will remain the chief producer of textiles and other consumer goods. As a matter of fact, the highly vulnerable Shanghai is being de-industrialized, and some industries and skilled labor were moved into the interior. The cotton textile industry is still the largest from the viewpoint of workers employed.

Practically no new industries are being planned for South China, which will remain the chief producer of food, vegetable oils, wood, and paper. One reason for the neglect of the South are the rudimentary communications, but also the fear that if any attack is launched it will probably be from Formosa (Taiwan). A strategic railway that will open up a large new area of South China is being built to Amoy, right across from Formosa.

Experiments with Latinizing the Writing

However, not all efforts of China's communists are directed toward industrialization, flood control, and defense preparations. Like the Russians, they are also anxious to develop a country-wide school system and to train capable engineers, technicians, and scientists. But they have additional handicaps. Whereas the Russian population was about 50 per cent illiterate when the Soviets started, some 80 per cent of the Chinese population is illiterate. Widely varying languages are spoken in different parts of Red China.

Never in history has so monumental an educational task been undertaken, for China is the world's most populous country. The problem is compounded by the fact that many important scientific books are untranslatable into Chinese. With the abandoning of English as the language of instruction in the university system, the Chinese educators have really come up against a problem.

To overcome these difficulties and to do away with illiteracy, various plans and proposals are now being considered for either simplifying the Chinese language or romanizing it. This would include the introduction of a 28-letter Latin alphabet which the communists espoused as far back as 1941.

* * *

In contrast with Russia, which seems to be going through the last phases of the economic and social revolution which began in 1917, China is still in the very first stages. Much has been accomplished in the way of social and economic transformation of the country, even though the ultimate purpose may have been the strengthening of the Communist Party's grip on the country. Even for the communist zealots, there is nothing but hard work, self-denial, and a grim future for most of the population. It remains to be seen whether the psychological satisfaction that many Chinese feel in connection with the growing international prestige of their much-maligned country will make up for the grim, personally unrewarding future they face. —END

New Vistas of Opportunity

(*Continued from page* 67)

would be, first, the greater possibility of maintaining peace, and, second, materially increase our chances of victory if any enemy should attack. The realization on the part of a foreign power that even though it was successful in carrying out an attack on our main centers of industrial facilities and population we would still have an industrial capacity and a productive might about equal to that of the Soviet Union before the power of our

Strategic Air Command rained destruction on it in retaliation.

Another important advantage of this non-military defense program would be the development of a method through which our present great number of large industrial and heavily populated areas, grow or rebuild, maximum advantage is taken of the opportunity to reduce our vulnerability to an atomic attack, but to increase our industrial efficiency.

The initial industrial dispersion program was placed in effect by the President on August 10, 1951. It is not fair to say that it was accepted by everyone everywhere without criticism. In this country of ours things do not work that way. But it is fair to say that the program was accepted generally and was an outstanding success from the start.

Mr. Ethan Allen Peyser, who collaborated with the author of this article, accepted service as a consultant to the National Security Resources Board during the embryonic period of the program and went to most parts of the country to explain it.

Mr. Peyser also was Chairman of the Seattle Citizens Committee, which prepared a program for dispersion that was basically simple, embodying four principles which were later included without substantial change in the government brochure. These principles were:

1—"To disperse new and expanding industries—not to move established industries from older industrial centers.

2—Not to build up one region of the country at the expense of another.

3—Industrial dispersion to be confined to each marketing area.

4—Local governments, in cooperation with private enterprise, to take the initiative in this defense objective. The Federal Government to provide the necessary encouragement and technical guidance."

The presentation of these basic principles did much to clarify the understanding of the dispersion program in the minds of company managements. Since then considerable progress has been made in industrial plant decentralization, an achievement that has been materially aided by efforts of the Federal Government, largely through granting of Certificates of Necessity, permitting fast amortization of new facilities qualifying under the program. Industry, keeping pace at the same time with a rapidly increasing population and the growth of new industrial areas across the country, has pushed forward by establishing new plants, distributing, and other facilities in the South, the Southwest, the Pacific Northwest, and other regions, thus extending the economic horizons for this nation, growing at a faster rate than had been deemed possible when World War II had ended.

In contrast to a 1945 estimate of a United States population of 155 million in 1955 the actual population by the latter year had risen to 165 million, and it is now predicted that by 1968 the population of the nation will have increased to close to 200 million.

This growth in population is certain to have an effect upon the way of life for millions of individuals. This is already proved by the trend of current events across the country. We have already seen the development of areas immediately adjacent to the present large cities on the East and West coasts, the mid-West, and along the Gulf coast. Since the end of World War II this country has seen the rapid development of suburban areas adjacent to the large cities. Actually, what has been taking place has been the movement of individuals from urban areas that had already reached the saturation point to outlying suburbs which in themselves will continue to expand over an increasingly greater area. Although the older industrial regions of the nation will participate, within their own marketing areas, substantial growth is forecast for the newer regions already developing and those yet to be established as the plant dispersion or non-military defense program achieves increased momentum in execution. This is already indicated in expansion of industrial activity in the Southwest, the Pacific Northwest, the Gulf Coast area, and in the deep South. In this latter region which at one time was largely rural supporting, in a meager way, thousands of sharecroppers, the influx of industry has afforded plant and factory employment to countless numbers of workers who have upped their annual income from an average of $1,000 and more.

It is not difficult to understand that with the development of this market for automobiles, household appliances, and other commodities, why the growing economic importance of the South is attracting any number of important manufacturers to establish plants there to take advantage of a good labor market and at the same time put itself in an advantageous position to serve the needs of a people who are advancing their standards of living.

Still more rapid growth is forecast for the Pacific Coast areas. Los Angeles and its environments that now have a combined population of more than 5 million will, it is estimated, more than double its number of people within the next two decades, while further up the west coast the San Francisco-Oakland area over the same period will show a population growth from approximately 2.6 million at the present time to more than 5.3 million, an expansion that, on a percentage basis, will be matched by the Pacific Northwest which takes in Portland, Oregon, and Seattle, Wash. This is an area that is growing in population and industry at a tremendous rate. To meet this region's fast-growing needs it is estimated that during the next decade additional power equivalent to the output of 10 more hydroelectric plants the size of the Bonneville station will be required. As to this estimate, both private power supporters and public power advocates are agreed. According to data compiled for the Engineering Committee of the Pacific Northwest Governors' Power Policy Committee, actual peak loads grew from less than 700,000 kw in December 1920, to about 7.1 million kw in January 1954, and other informed sources put the 1955-56 power output at about 8.7 million kw. As Pacific Power & Light's President Paul B. McKee points out, the Pacific Northwest's present power resources, which are evenly divided between local and Federal facilities, are only about sufficient to carry the load while it is calculated that the subsequent 10 years to 1963-64 would experience an increase to in excess of 13.5 million kw. This would mean adding about 6.5 mil-

lion kw of new capacity at a total cost of more than $3 billion, or $300 million annually over the 10-year period if adequate power facilities are to keep pace with the burgeoning Pacific Northwest.

This is a veritable empire. It is rich in timberlands, minerals, diversified agriculture, and growing in importance industrially. Because of its power facilities, the region has attracted the four largest domestic aluminum producers. At Longview, Wash., Reynolds Metals Co., is operating a primary aluminum ingot plant with current capacity of 50,000 tons, while to the south at Troutdale, Ore., its plant there has a capacity of 82,500 tons annually. At Vancouver and Wenatchee, Wash., Aluminum Company of America's two plants have a capacity of 195,000 tons which, before the end of 1956, will be increased to 206,000 tons. Kaiser Aluminum runs a close second to Alcoa in the Pacific Northwest as an aluminum producer, its two plants at Mead and Tacoma, Wash., have a rated capacity of 208,200 tons. By the end of this year, this capacity is expected to be brought up to approximately 214,500 tons. Last year, the Flathead Valley of Montana received a new industry when at Columbia Falls, Anaconda Co.'s subsidiary, Anaconda Aluminum Company, began operating its $65 million primary aluminum plant having a rated ingot capacity of 60,000 tons. The dominant factor in selecting Columbia Falls as the site of this plant was the Hungry Horse, the nation's fourth largest concrete dam, rising 453 feet above the Flathead. The Grand Coulee, the giant of all the dams and the largest concrete structure on earth, has a waterfall twice that of Niagara, and equipped with hydroelectric generating equipment designed by this nation's great industrial concerns capable of producing about one-third of all electric power available to the region, while its huge pumps send life-giving waters of the Columbia River to the Columbia Basin where, in 1955, approximately 145,000 acres of irrigated land were in varied crops.

But the Hungry Horse, Grand Coulee, Bonneville, the McNary, and The Dalles dams, are not enough. Last year, local public agencies and private utilities—and the Federal government—

stepped up their programs for the further development of the great hydroelectric potential of the Columbia River and its many tributaries. Among the several projects is Washington Water Power Company's $85 million dam which it will build at Noxon Rapids on the Clark Fork in Montana. Work on this undertaking has begun, generating equipment that will provide 400,000 kw of electric energy has been ordered. According to present schedule this new facility should be in operation by 1960. The Idaho Power Company, after considerable delay, has recently been granted the "go ahead" to construct three dams on the middle Snake River in the Hells canyon area. These projects are the Brownlee dam, on which construction work has already been started; the Oxbow, and (low) Hells Canyon, all three of which will cost an estimated $133 million, to be financed by private capital, and when in operation will add 783,500 kw of installed initial capacity, with possibly 391,000 kw added later on.

Other projects are under way or being contemplated. Included in this group are the Priest Rapids and Wanapum dams on the Columbia River north of the Hanford atom project operated by General Electric Company. This plant last year had a work force of approximately 9,250, and a payroll of more than $55 million. When the two dams just referred to, which will be built under FPC license to the Grant County public utility district at a cost of about $349 million to be privately financed, are completed they will have a productive capacity of about 1,170,000 kw. There are numerous other dams in various stages of planning and development, one of which, the Wells, Kaiser Aluminum is taking a direct interest.

Further south along the West Coast, Southern, Central and Northern California continue to grow industrially, in agriculture and in population. California, at one time thought of as a land of grape vineyards and motion picture producers, has become a major industrial area containing diversified industries. These include great aircraft manufacturing plants of Douglas, Lockheed, North American Aviation, General Dynamic's Convair, and modern steelmaking plants.

Mirroring the great industrial expansion of the territory is the rapid growth of new industries and population gains that are causing a number of its cities to fairly burst at the seams. From a 1950 population in the San Francisco-Oakland area of 2,240,000 the number has climbed to approximately 2,644,000. It is estimated that by 1975 the number of individuals in this section will have increased to more than 5 million, the greater portion being spread out in the surrounding suburbs. Still greater growth is looked for in the Los Angeles area which now has a population of about 5.3 million, representing a gain of about one million in the last five years. With the continued industrial expansion over the next two decades, it is calculated that the Los Angeles population will approach 11 million.

If this growth already recorded and that which is anticipated appears phenomenal so does that which has taken place and indicated for the Southeast with the

influx of textile manufactures, paper and paperboard producers, and expanding activities of the chemical, lumber, steel, aluminum, and oil industries.

Linked with the impetus of plant dispersion as part of our non-military defense thus opening up new industrial areas, the creation of new cities and towns and increasing employment opportunities is the vision and courage of American corporations move into these areas by constructing processing or manufacturing facilities to supply industrial and consumer needs.

The foregoing article is a preamble to series of special features to appear in subsequent issues of The Magazine showing the changes that are taking place in the OHIO VALLEY—the MIDWEST—the PACIFIC NORTHWEST—the SOUTHWEST—the SOUTHEAST—and revitalized NEW ENGLAND.

In many regions the industrial growth has been of major significance to business leaders and the investment community. It shall be our purpose to spell out this meaningful development from that angle. —END

Real Values Behind 75 Leading Stocks

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Allegheny Ludlum Steel in that year. Net earnings to sales and revenues climbed to 5.86 per cent from 2.5 per cent in 1954. Costs reductions and improved profit margins also help raise the return on stockholders' investment from 5.30 per cent in the latter year to 16.49 per cent in 1955. Net earnings, on a dollar basis, last year amounted to $8.25, up from $2.30 the year before. This 1955 showing was achieved despite the fact that amortization and normal depreciation and depletion allowances continued to increase, totaling for the year $10.8 million. Of that amount, normal depreciation and depletion totaled more than $3.8 million, and amortization amounted to $7 million. If instead of amortization, normal depreciation had been charged on these facilities, AL's earnings per share last year would have been increased by $1.30. In the 10 years from 1946 net property, plant and equipment account has been raised from $15.2 million to $72.2 million and common stock equity has gone, in the same period, from $28.17 to $48.82 a share.

Last year, U. S. Steel's expenditures for additions and replacements of facilities amounted to $239.8 million, bringing its expenditures for these purposes in the last three years alone to $936.4 million. At the end of the year, authorizations for replacements and additions brought the amount required to complete all authorized projects to an estimated $550 million. Since the end of 1945, Steel, after giving effect to two three-for-one stock splits, one in 1949, and the other in 1955, has increased the equity for its common stock from $23.65 to $39.60 a share. While the corporation has been expanding its annual steel ingot and castings capacity to a rated 39.2 million tons as of January 1, this year, it also has been expanding the capacity of rolling mills and other manufacturing facilities and growing in importance ammonium sulphate and other coal chemicals. Last year was the best in many respects in the company's long his-

tory. Net income at a record high of $370.1 million was equal to 9 per cent as compared with 1954 net income, admittedly a year of unrestricted steel production, of $195.4 million, equivalent to six per cent of that year's sales. In studying Steel's showings for either year, consideration should be given to amortization of completed defense facilities under certificates of necessity. Last year amortization under these certificates amounted to $147.7 million, compared with $142.8 million in 1954 and $105.1 million in 1953.

Between the years 1946 and 1955, Armco Steel Corporation's capital expenditures under its expansion and improvement program totaled $310 million. Of that amount, $228.2 million represented retained earnings over the 10-year period. In that time it increased its net property, plant and equipment account from $97.8 million to $231.6 million. This has been after normal depreciation charges and fast write-offs under certificates of necessity totaling $19.4 million in 1955 and $18.8 million in 1954. Net earnings in 1955 of $6.05 a common share were equal to 17.72 per cent on the common stock equity of $386.6 million, or approximately $36.36 a share after giving effect to the two-for-one stock split in May, 1955, up from $16.11 a share at the end of 1946.

A study of the annual reports of these and other companies in each of the last few years would have revealed how retained earnings were being plowed back into the business, building earning power that would become evident in subsequent years. To those investors who took time to study these reports was given an opportunity to take a position in one or more of these issues at a time when they were priced in the market considerably under current levels.

Of course, the steelmakers and others identified with that industry were not alone in carrying out expansion and improvement programs, using for this purpose moderate to substantial portions of earnings from year to year. In this regard, General Electric is an outstanding example. In the postwar years to the end of 1955, GE has invested more than $1.1 billion in expansion and modernization to improve values and provide new products. Within the 10-year period it has added 63 plants and at the close of last year its facilities in the United States included 138 highly productive plants in 107 cities in 28 states. As a matter of fact, GE in the postwar decade has been basically rebuilt. New plant sites were chosen for geographical diversity, and nearness to markets and sources of raw materials. Scattered manufacturing facilities for similar products have been brought together in unified modern plants and the company's organization has been changed from a centralized structure to as broad a decentralization of responsibility and authority as can be found in the industry.

Over the 10 years total share owners' investment has grown from $361.7 million to $1,608 million.

The accompanying tables make it comparatively simple for the reader to trace the growth of each of 75 companies making up the list over the postwar decade. While many of them have pursued the policy of reinvesting substantial amounts of retained earnings, others have been able to generate large annual sums through high depreciation charges. This is particularly true of a majority of the chemical companies of which Dow Chemical and Monsanto, to mention just two of the group, are outstanding examples. Although

Dow since 1946 shows only a little more than $7 a share in retained earnings, its large "cash flow" has permitted it to appropriate substantial sums for property improvements and additions which in the 10-year period amounted to approximately $661 million. In the same time stockholders' equity has grown from $81.5 million to $316.3 million. Monsanto's book value of its common stock, adjusted for splits, has increased from $4 a share 10 years ago to $17.37 a share at the close of 1955. From $32.7 million net property account has grown to $420.6 million. On the basis of current prices for these two chemical stocks it is evident that the market is evaluating the issues on values and prospects. These are factors that must be weighed in relation to each other when studying any company. An issue that sells at a price to yield a high return but also shows a high ratio of price to annual earnings is not always as attractive as a stock yielding a smaller income and sells at a more conservative price in relation to earnings.

Book value is of particular significance in relation to electric utility company common stocks. This is for the reason that rates these utilities can charge are generally established to allow a stated return on book value. It follows then that the higher the value the greater the return to the company per share of common stock. While the premium at which electric utility stocks varies between companies and at different times, invariably an increase in book value will be reflected in a rise in the market price of the stock.

In the foregoing, we have attempted to highlight the basic factors that should be weighed when attempting to evaluate common stocks. We suggest that the tables appearing on pages 71 and 73 may be retained for reference.

—END

Answers to Inquiries

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amounted to $27,851,000 while total liabilities were $10,700,000, leaving a net working capital of $17,151,000. At the close of 1955, the company had $2,497,000 in cash on hand. Appropriations for new machinery and equipment during 1955 exceeded $1,500,000 of which $900,000 was spent during the year.

In connection with the acquisition of M & H Valve & Fittings Co., Alloy Steel Products Co., Southwest Fabricating & Welding Co., Inc. and Conoflow Corp. in the latter part of 1955, Walworth issued 536,576 new shares of common stock, representing an increase of approximately 40% in the outstanding shares of common stock. There are now 1,895,334 shares of common stock outstanding. The acquisition of four new subsidiaries with business and operations closely related or allied to Walworth should prove of special importance in 1956 and the years ahead.

Walworth Company will more than double net income in first quarter of 1956 compared with a year ago and sales will show almost a 100% gain, according to the president of the company. Naturally a substantial part of the sales increase is attributable to the acquisition of four companies since August 1955.

Consolidated earnings for the first three months of this year, according to the president, should exceed $1 million equal to about 55¢ a share on $1,895,334 shares outstanding. In first quarter of 1955 prior to acquisitions, net income was $446,337 or 34¢ a share on 1,358,758 shares. Sales should approach $19,500,000 in current quarter against $10,689,000 last year. Incoming orders are at a high level. The major industries served are operating at satisfactory levels and year 1956 is expected to prove satisfactory. The company will continue its efforts to lower costs. This may involve new plants and manufacturing facilities.

Quarterly dividends of 20¢ per share were initiated in May 1955 with total payments in 1955 of 40¢ per share. Recently the quarterly dividend was raised to 25¢ per share.

Mueller Brass Company

"I enclose a stamped, self-addressed envelope. Kindly send me pertinent data on Mueller Brass Co."

S. T., Baltimore, Md.

Mueller Brass is a copper and brass fabricator, and its position

(*Please turn to page* 138)

Answers to Inquiries

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is being fortified through expansion in aluminum and plastic pipe. Sales, to a substantial extent, normally consist of fully finished products; the larger part are standard trade-mark copper pipe, tubing and fittings extensively used in the plumbing, heating, refrigerating, air-conditioning and automobile industries.

Reflecting a high level of demand from a widely diversified group of industries, sales of Mueller Brass Co. reached new high records for the fiscal year ended November 30, 1955. Sales rose 37% to $67,737,598 from the $49,395,600 reported for the fiscal year ended November 30, 1954. Net earnings did not keep pace with the increased sales, due to copper shortages which made it necessary for fabricators to buy metal at prices well above those of the prime producers, which are the basis of selling prices. Earnings before and after taxes, however, were higher than during the 1954 fiscal year.

Consolidated earnings before taxes amounted to $5,518,255, compared with $4,924,214 in the preceding year.

After provision for income taxes, consolidated net earnings for the 1955 fiscal year amounted to $2,548,255, equal to $4.58 per share on the 555,933 shares of common stock outstanding. This compares with net earnings of $2,304,214, or $4.22 per share, on the 545,883 shares outstanding at the close of the preceding fiscal year. The shortages of copper made it necessary for Mueller Brass to sell from inventories previously acquired at lower costs, but the gain resulting from such sales was greatly exceeded by the effect of buying large tonnages at premium prices.

Expansion of the company's facilities is expected to bring new capacity into use during the current fiscal year. New production and shipping facilities, as well as additional rolling mill equipment should be installed in the company's aluminum subsidiaries in the early part of this year. The expansion of Mueller's copper tube mill late in 1955 should enable the company to supply substantially increased quantities of tubing to consumers.

Sales of the company's flexible plastic pipe also are expected to increase during 1956 and "may well justify further expansion in this field." Both copper and aluminum are still in short supply, but there are indications that both materials will become more available later in 1956, although prices will probably remain high.

Prospects for the current year continue favorable.

Dividends, including extras, totaled $2 a share in 1955. The regular quarterly dividend recently was increased to 50 cents per share and this rate is expected to continue.

Minnesota Mining & Manufacturing Co.

"You have stated in your Magazine that Minnesota Mining & Mfg. Co. is an outstanding growth company. As I am a subscriber to your Magazine, I would appreciate receiving information in regard to the company's financial position, earnings, new product development and dividends."

C. A., Madison, Wis.

Minnesota Mining & Manufacturing Co. manufactures adhesives, reflective sheeting, recording tape, pressure-sensitive tapes, roofing granules and coated abrasives. The company has an outstanding growth record and further growth is indicated through development of new uses for present products, broadening of lines and development of new products.

Minnesota Mining reported its largest dollar increase in sales and earnings in its 54-year history. Consolidated sales for the year ended December 31, 1955, were $281,860,717, an increase of $50,970,235, or 22%, over its 1954 record of $230,890,482.

Net income, after taxes and preferred dividends, increased 41% to $34,323,370, compared with $24,341,885 in 1954. This amounted to $4.14 on each share of common stock, compared with $2.95 in 1954.

At yearend there were 8,288,777 shares of common stock outstanding. As a result of shares issued since January 1 under the company's two employe-restricted stock option plans, there are now 8,308,416 shares outstanding.

Stockholders will vote on a 2-for-1 stock split at their annual meeting May 1.

In each of the four quarters of 1955, consolidated sales exceeded any previous quarter in the company's history. All major product

groups shared in the increased volume.

Export activities and sales of the company's subsidiaries in Canada, England, France, Germany, Brazil, Mexico and Australia exceeded $40 million, a 33% increase over the previous year. Only export and Canadian sales are reflected in the company's consolidated figures. This increase was due to greatly improved economic conditions and broader distribution of 3M products abroad. The company now has 14 manufacturing plants operating in these seven foreign countries.

Current assets for the parent company and domestic and Canadian subsidiaries increased more than $30 million from $102,395,421 in 1954 to $132,949,683 at yearend.

New additions to plants in the United States and Canada totaled $15.9 million in 1955, compared with $9.6 million in 1954. Major projects completed during the year were a new reflective products plant at Guin, Ala., and an electrical products laboratory at the company's research center near St. Paul, Minn.

Indicated expenditures in 1956 for plants and improvement will total between $20 million and $30 million. These expenditures will be made entirely from company funds. Projects now underway include expansions of facilities at Bedford Park, Ill., to accommodate operations of two wholly-owned subsidiaries; a new plant at Hastings, Minn., for the company's fast-growing line of "Thermo-fax" brand duplicating products; and a new ribbon plant at Fairmont, Minn.

The current year is expected to be another progressive year for the company.

Dividends in 1955 totaled $1.65 per share, and 45 cents is the current quarterly rate.

Minneapolis-Honeywell Regulator Co.

"As a long-time subscriber to your informative publication, I have noted that you some time ago stated that Minneapolis-Honeywell Regulator Co. is a good growth issue. I would appreciate receiving late data and include information on company's expansion program." *P. C., Atlanta, Ga.*

Minneapolis-Honeywell Regulator is a leading producer of automatic heat-regulating and temperature control apparatus for both residential and industrial use. It has achieved an unusual growth record. The future sales potential of automatic control equipment is good and earnings should keep pace.

Earnings of Minneapolis-Honeywell Regulator Co. in 1955 increased by aproximately $4,000,000 over the previous year to reach a new high of $19,278,648. The 1955 net income was equal, after preference dividends, to $2.98 a share on 6,355,666 shares of common stock outstanding. In the previous year, net income was $15,345,203, or $2.42 a share on 6,345,906 shares after giving effect to the 2-for-1 stock split in April of 1955.

Company's 1955 sales were the highest in its 70 year history being $244,482,068 as compared to $229,401,837 in 1954.

Substantial sales increases in major civilian fields accounted for the year's record volume.

The principal gains were made in the domestic and commercial heating and air-conditioning controls markets, in sales of industrial controls and in foreign sales. Deliveries of defense products decreased in 1955 but it is anticipated that they will increase in 1956.

The year's sales total was increased by $6,056,410 in net income by $997,503 as a result of the consolidation, for the first time since 1939, of all the company's eleven foreign subsidiaries. The operation of one of these, located in Canada, always have been consolidated.

Decision to consolidate the others, located mostly in England and Western Europe was made "because of their increasing importance and to recognize the improved exchange and economic conditions in the countries in which they are operating."

If all foreign subsidiaries had been similarly consolidated in 1954, they would have added $4,279,217 in sales and $523,195 in net income that year.

During 1955 Honeywell invested $13,051,700 in capital additions for expansion and improvements. Further capital additions in the amount of $4,600,000 were authorized during the year to be completed in 1956.

Along with plant modernization, the 1955 program covered plant construction at Los Angeles, Chicago and Denver.

With the Editors

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metal panels in nine and a half hours; but after this was done, exterior wall back up had to be constructed for all sides of the building from bottom to top. This additional time took a great deal more than the six to eight weeks which might have been required if a complete masonry wall were constructed for the building comprising both an outer skin and the required back up.

In other words, it has been proved beyond any doubt that a building can be made habitable much faster by using full masonry than by any other method.

In addition to this, there are figures available to prove that masonry construction, in an instance such as you note, would cost very considerably less than the method of construction employed.

As a further note, this particular nine and a half hour job was a tour de force requiring some weeks of initial preparation, a complete cessation of building activity while it was being done, specially trained help, and a special salary compensation as impetus. Under normal conditions none of these extraordinary methods could have been employed, and many more hours than nine and a half would be required.

In other words, the activity which you note, and seem to imply as normal, was very extraordinary and likely to create a false impression.

Much of the apparent gain in methods of construction which has been attributed by the metal industry to this kind of building has been done merely as a publicity effort and bears no relationship whatever to normal construction methods or costs. As building owners and architects make a more sober appraisal of the comparative values of masonry and metal, I feel sure you will find masonry still being employed as the fastest and most economical building material yet devised.

We would appreciate it very much, if possible, for you to print this letter in your fine magazine, if only to maintain your reputation for fair dealing.

Joseph P. Moore, Public Relations
Building Stone Institute
Stamford, Connecticut

Editor's Note — We are always glad to hear from readers who wish to add information or to give us the benefit of their experience.

A National Research Organization writes —

May I have your permission to reproduce the chart, page 495, of the January 21st issue of The Magazine of Wall Street?

I would like to use the chart in a business newsletter that I edit, and of course, will give proper credit below the chart.

Magazine of Wall Street is "must" reading for our editors; and I find your analyses on U. S. economy direct and straightforward . . . also, it's a "trend-spotter."

I truly will appreciate your permission to use the chart.

R. W., Chicago.

Editor's Note — We receive many requests from various organizations for permission to use material in our pages, giving us proper credit lines. Frequently, leading companies ask for reprints of our stories for distribution.

A Research Engineer writes —

I would like very much to know if the new Packard patents are solely owned or can all automobile companies use them without charge? I would also like to know whether Borg-Warner are protected patent-wise on push button shift and what are the present patent agreements in the automobile industry?

F. A. W., Detroit.

Editor's Note — In our May 12th issue, we will present an important, up to the minute article on the automobile and accessory companies to which we refer this writer and all other interested readers.

A Major in the Army writes —

As a new subscriber to your excellent magazine, may I offer my profound appreciation for the excellent and timely articles which are a part of each issue I have read. I would like an analysis of the following companies with special emphasis on the long range prospects of production, sales and growth. A self-addressed stamped envelope is enclosed.

Louisiana Land and Exploration Company
Honolulu Oil Corporation
*DuMont (Allen B.) Laboratories, Inc., Class 'A'
*Would like a full account of this company's activities.

E. J. L., Warwick, Va.

Editor's Note — Such expressions of satisfaction inspire us in our efforts to serve you well. This letter was promptly answered by our Personal Inquiry Department — and we invite all subscribers to write us for advice on any three listed securities at a time.

A Philadelphia subscriber writes —

I have been a subscriber to "The Magazine of Wall Street" for several years, and last year thought I renewed my subscription for 1955 and 1956, inclusive.

Now being doubtful that I took the subscription for two full years, would you please inform me of my status.

Your magazine has been of the utmost help in guiding my investments in past years. I certainly wouldn't want to miss one issue.

F. G., Philadelphia.

Editor's Note — This reader realizes the importance of maintaining the continuity of the service we provide. Many subscribers place long-term enrollments — a recent one was for 10 years in advance.

A new subscriber from New York State says —

I have enjoyed studying your Magazine of Wall Street. It was received last year as a Christmas present. I am renewing, personally, because of the excellent calibre of material presentation used in your publication. Your articles were instrumental in my shift from a relatively speculative type portfolio to a growth stock type.

A. E. W., Vestal, N. Y.

Editor's Note — A great many corporations and executives subscribe to The Magazine of Wall Street, which is frequently sent as gifts — and recently a real estate organization presented a year's subscription as an award for accomplishment.

PHIL SILVERS SAYS: "HAVE A CAMEL—IT'S A PLEASURE

TV's Top Sergeant Smokes America's Top Cigarette!

● As Sgt. Bilko in TV's most popular new comedy show, Phil Silvers has the whole country shaking with laughter! "I'm the kind of guy who likes to really enjoy life," Phil says. "When it comes to smoking, that means Camels. Got 'em all beat for pleasure!"

R. J. Reynolds Tobacco Co., Winston-Sa...

Join America in the pleasure of Camels — the most popular cigarette today! Enjoy Camel's good, rich taste and real smooth mildness. You'll see why Camels give more pleasure — to more smokers today — than any other brand. Only Camels *taste* so rich, yet smoke so *mild!*